

JPRS-EEI-85-053

6 June 1985

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

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6 June 1985

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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INTERNATIONAL AFFAIRS

POLISH OFFICIAL ON NEED FOR CEMA INTEGRATION, JOINT VENTURES

Warsaw ZYCIE GOSPODARCZE in Polish No 11, 17 Mar 85 p 11

[Article by Stanislaw Dlugosz, deputy chairman, Planning Commission of Polish Council of Ministers: "The Foundations of Partnership in CEMA"]

[Text] In the world economy there are now two competing politico-economic systems. On the one hand, there is the socialist community, and on the other hand there are the developed capitalist countries. A third system also exists, something akin to a 'third force' consisting of developing countries that are seeking more or less an unequivocal orientation for their socioeconomic development. In each of the mentioned systems there are three kinds of members: leading countries on a global scale--the USSR and the United States; economically developed countries; and countries that are socially and economically in last place.

The Functions of the Leading Countries

The significance and functions of the leading countries are always the determining factor in the system's internal life and in shaping its relations with the outside world. During periods of very intense political, military or economic tension, their leading role in international relations manifests itself quite clearly. The state of the bilateral relations between the leading countries determines the extent of the tensions or detente, cooperation or boycott, and coexistence or confrontation. It creates a freeze or a climate that is conducive to initiatives for economic cooperation in both areas.

Following a period of constructive East-West dialog during the first half of the 1970s, the beginning of this decade ushered in serious disruptions in cooperation that were brought about by the West's contravention of the positive dialog between the two systems. The United States, a power that in the opinion of ex-President Nixon has been in a real third world war for a long time, has been especially active in inspiring and causing trouble, which, after all, is natural.<sup>1</sup>

An explanation for this state of affairs can be found in A.E. Stent's article "A Critical Analysis of Studies of East-West Economic Relations" (EUROPA ARCHIW, 1984). Among other things, the author shows quite objectively the fundamental difference between the United States and its Western European allies.<sup>2</sup> At the same time, the author states realistically that the United

States is assuming an increasingly dominant position in the capitalist bloc. This is confirmed by the formulations of the final communiques issued after the summit conferences in Williamsburg and London.

It is easy to predict that this year's communique from the coming summit in the FRG will also contain this policy, perhaps in a camouflaged way. It is an indication of the West's confrontation tendencies. In this same article, Prof A.E. Stent explains that in its extensive political and economic dealings, the United States attempts to make use of the 'carrot and stick' mechanism.

It is difficult not to be aware that influential people, who are still living in the age of 'Uncle Tom's Cabin,' continue to be the most visible in the American Administration. In the interest of fairness, however, it should be emphasized that today certain American economists, politicians and business representatives believe that attempts to implement this carrot and stick mechanism will be ineffective. What is more, after the shock of the restrictions policy initiated at the start of this decade and seeing the ruthlessness of Reaganomics, more and more responsible people are appearing in Western Europe who are starting to look with increasing interest at the socialist community market. I would like once more to cite T. Tisunanen who said: "At the present stage, Western Europe's industry is competing very hard with the industries of the United States and Japan. Thus, closing off the CEMA markets would be a great shock to Western Europe's industry". In this context, it should be remembered that at the threshold of the 1970s, West Germany's somewhat friendly but quite authoritative HANDELSBLATT (5/6 November 1971) forecasted "The Race for Eastern Markets."

#### History Likes To Repeat Itself

Generally speaking, the experiences gathered during the 40 postwar years, despite periods of coexistence, show a continuous effort by the West to disrupt or delay the economic development of the socialist community. This makes the socialist states wary of the concept of expanding economic relations with capricious partners. This does not mean an unwillingness to expand these relations on the basis of mutual benefits. This especially does not mean any kind of ostensibly innate inclination toward economic self-sufficiency from the side of CEMA member countries. It should be remembered here that CEMA's founding document states unequivocally its openness to international cooperation.<sup>3</sup> Thirty-five years later, during the period of great tension caused by Western imperialistic agents, in the June 1984 CEMA declaration "Maintaining Peace and International Economic Cooperation," the socialist countries once again called for ways to develop peaceful, stable international political and economic relations that take into account the realities existing in the world and the interests of all countries.

There are at least two reasons for exercising caution in expanding economic cooperation with the West:

-- their goal to hamper the development of the socialist community; the developed capitalist countries do not hesitate to violate suddenly, arbitrarily and illegally accepted norms of economic cooperation. This was

fully confirmed by the restrictions imposed against Poland by the NATO countries on 11 January 1982;

-- the Western countries engage in restrictive and discriminatory activities in four areas:

- 1) They make it difficult for the economic apparatus of socialist countries to conduct normal purchasing and economic activities that are in accordance with the proper regulations of the recipient country;
- 2) They impose barriers -- in some case barriers that are tantamount to an economic blockade -- in credit and financial cooperation, which takes on greater significance for normal cooperation and its expansion as the volume of turnovers grows and the period to realize a project increases, especially in industrial cooperation;
- 3) They question all economic ventures that are long term and comprehensive. This hinders cooperation in the realm of raw materials, fuels and industrial cooperation;
- 4) They hinder the transfer of technical and technological innovations, one of the most effective instruments for gradually equalizing existing structural asymmetry in East-West turnovers, which hampers cooperation. Increasing and expanding COCOM's [Coordinating Committee for Multilateral Export Controls] activities in the realm of increasing supervision and control of exports of machinery, equipment and technology to the socialist countries is a glaring example of this.

The described actions were presented perhaps somewhat briefly but very accurately by Paris' LE MONDE: "The Americans aim to employ a strategy of controlled retardation against the USSR and its allies, that is, to agree to export only obsolete equipment." The restraining of new technology transfer to the CEMA countries by the Western countries brings to mind, of course, certain delays in resolving some technical problems. However, in the publication "East-West Trade at the Crossroads" (1982), which is authoritative for this type of evaluation, it is stated that "although the significance of transfer is not questionable, it does not deserve to be called singularly important."

The exposition to date leads to the conclusion that in the current international situation, especially in the context of the strategy designed to weaken the socialist community, the widely understood process of socialist economic integration is and will be the main area for external economic cooperation among the CEMA socialist countries. The CEMA countries confirmed this unequivocally at the Moscow "Declaration on the Primary Directions to Further Develop and Strengthen Economic, Scientific and Technological Cooperation Among the CEMA Countries" (June 1984).

#### Basic Differences

In this situation, the philosophy of cooperation and its resulting foundations and mechanisms for economic partnership are of basic significance for increasing internal economic cooperation within the socialist community. For

the CEMA countries, seeking economic solutions that are or will be a sum total of equivalently distributed economic benefits to all participants in a given venture is the foundation for cooperation. This concerns individual transactions as well as macroporcesses (for example, the coordination of multiyear economic plans of the individual countries). Phenomena that are characteristic of economic relations among the capitalist countries , such as the "policy of impoverishing your neighbor" (J. Robinson) or ruthlessly striving to achieve, even temporarily, the position of the "dominant economy" (Fr. Perroux) do not occur in economic cooperation among the socialist countries. To provide a practical illustration of this thesis, it is sufficient to compare the MFW voting machine" controlled by the highly developed capitalist countries with the regulations for making decisions by the CEMA International Investment Bank, which stipulate that each member of the bank's council, regardless of the amount of capital contributed by the country he represnts, has only a single vote.

Another example of the difference in the approach to international economic cooperation within the socialist community and the approach taken by the developed capitalist countries is the distinct interpretation and use of the most-favored-nation principle. Historically speaking, the Western countries, especially the United States, use this principle as an instrument of economic invasion within the framework of the so-called free-trade doctrine, and as an instrument of economic pressure against recalcitrant--in their opinion--partners. The socialist countries consider the most-favored-nation principle exclusively as an instrument to stimulate cooperation, to lessen and abolish restrictions and discrimination, and to equalize commercial opportunities.

The basic difference between the socialist countries' primary principle of economic cooperation, which is based on supporting cooperation that benefits all, and the obligatory principle in the capitalist world, the aim of which is economic domination, is that the daily calamities that torment the capitalist world are foreign to the socialist countries. Such calamities include: attempts to shift the effects of one's own inflation to one's partners; attempts to maximize the benefits of one's monopolistic positions; price speculation (for example, the price movements of gold); exchange rate fluctuations; the so-called recycling of petrodollars; the massive speculative trading and financing operations conducted to the ultimate detriment of the poorest developing countries; the so-called trade war; shifting the burden of huge budget and balance-of-payments deficits to economically weaker partners; and finally the social curse of the capitalist system of management, that is, unemployment, whose dimensions are incomprehensible to the younger generations in the socialist countries. The 28 December 1984 issue of NEU ZURCHER ZEITUNG, under the alarming headline "The Number of Unemployed in the EEC Reaches a Record High," stated that at the end of October 1984 there were 12.8 million unemployed within the EEC, and the trend continues to go up.

All of these negative events are causing warnings to reappear in the important periodicals of the West about the possibility of a worsening overall competitive struggle in the capitalist world in 1985. The 10 January 1985 issue of HANDELSBLATT contained an extensive article entitled "World Economy Will Develop More Slowly in 1985." This was repeated in the FINANCIAL TIMES

(January 1985) in the article "Prediction of Slower Growth in the World Economy."

International economic cooperation is the sum total of many numbers and the sum total of activities of hundreds of thousands of people at various times. Thus, at times additional difficulties and barriers in this cooperation are also occurring and will arise in the community of socialist countries despite its basic philosophy of cooperation. Here one can include: breaking commitments; decision making processes that are too lengthy; the rough road for implementing innovations; the slow process for improving the functions of the transferable ruble as an international currency; the tendency toward bilateral solutions and the like. However, all of these difficulties and barriers are not innate. Instead, they are of a technical nature, even their assuagement or elimination take a lot of time and effort. The principle of equivalent apportionment of outlays or benefits is obligatory in solving these problems. In association with this, the possibility of a consensus solution will be sought above all, and not shifting the burdens to one's partners.

#### Mutual Benefits

Mutual aid, especially through cooperation, practiced by the USSR and the other socialist countries, is one of the characteristic traits of the philosophy of cooperation among the socialist countries.

Western authors estimate that the USSR is a factor helping the economies of the other socialist countries. "The raw materials and energy supplies from the USSR, which the CEMA countries could purchase with their finished goods, to a great extent alleviated production bottlenecks. Likewise, when oil prices on world markets increased annually (beginning with the first oil crisis), the Soviet Union continued to provide price subsidies to the CEMA countries, for example, selling them energy at less than world prices, while accepting a balance of payment deficit." <sup>5</sup>

A specific area of cooperation among the socialist countries in which the philosophy of partner-like cooperation is obvious is the aid provided to those socialist countries that emerged from an epoch of colonial exploitation, thanks to a change in their political system, for example, Vietnam and Cuba, or from an epoch of religious feudalism (Mongolia), and whose level of economic development will approach the level of the other socialist countries in multi-year processes. The concern here, among other things, is about joint explorations, mining and then processing the mined ores (Mongolia) or the processing of tropical agricultural products (Vietnam and Cuba) which, in turn, improves supplies of these products to the remaining socialist countries.

The fact that the socialist countries represent a significant segment of the world market, in which the process of socialist economic integration is proceeding, is a fundamental factor safeguarding the partner-like formulations of cooperation among the CEMA countries. It is a market characterized by a significant growth trend. WORLD ECONOMIC SURVEY 1984 (a United Nations' publication) contains the following evaluation. "The tempo of economic growth for the centrally planned economies increased from 3.7 percent in 1982 to a

projected 4.3 percent in 1983, which set them apart from the rest of the world ( ... ) During the past 3 years most European countries having planned economies introduced essential processes conforming to the changing external and internal conditions of the environment. Currently, at the threshold of the 1980s, the economic policy of the planned economy countries will permit most of these countries to strengthen the foundations for an intensive and continuous acceleration of their economic growth during the second half of the decade."

#### Improving Operations and Cooperation

Continually improving the national economy planning and management system is an imminent characteristic of socialist economies. The paths traversed by these processes are not always simple or broad. They are not always the surest way to a goal. But the goal in all the socialist countries is the same: to improve the effectiveness of management while increasing the potentials of the member countries and the entire community. Hindering the reform, deviating from the paths of the reform, and experimenting with and improving the mechanisms of management can result in the effects of the extensive problems of the disorders of the Western world's economic crisis that affected the socialist economies. They can also be the result of subjective causes, for example, the errors committed in economic policies. In the history of some of the socialist countries, the hindrances, pressures and deviations are especially intense in situations when both of the mentioned types of causes are superimposed. Based on socialist economic integration, in shaping their economic reality, the socialist countries utilize different mechanisms that in practice form the foundations of partnership.

The primary mechanism is the bilateral and multilateral coordination of the multi-year socioeconomic plans of the individual countries, which have been recognized by the participants of the Moscow meeting of socialist countries (June 1984) as "the main instrument for reconciling economic policy in areas related to mutual cooperation ( ... )" Coordination of plans now also includes the problem of overall economic policy and infrastructural investment projects.

The preponderance of demand (demand to be satisfied by domestic sources and imports) over supplies, despite the high rate of expansion achieved by the socialist countries in 40 postwar years, is a temporary, though long term, characteristic of the socialist community market. Despite all the difficulties such a state of affairs engenders, it contains the seed for an effective stimulation of economic expansion.

An important foundation for economic partnership is the obligatoriness of interstate economic agreements, especially long-term agreements, that are instruments for economic integration and for shaping a socialist international division of labor.

Periodic and current, bilateral and multilateral consultations at various levels and on different meritorious themes among CEMA members are based on the principle of consensus and its resulting formula: the concerned state. It also is one of the foundations of economic partnership.

The desire to obtain optimum economic results (thanks to the scale of production, sharing research and development expenses, developing different forms of cooperation and the like) is the primary reason why the socialist countries create international enterprises. But this does not mean that the primary goal is to maximize profits at the expense of the consumer or the user of the final product of the joint enterprise (except seeking profits via sales in the capitalist market). Analogous principles are applied in designing the concept of joint investments to resolve infrastructural energy, raw material and transportation problems.

A foundation of partnership that is especially important today is the joint resolution by the socialist countries of problems related to or having an effect on their participation in the ongoing revolution in innovation. This requires great intellectual efforts and significant financial outlays. Among the socialist countries, there is but one country with the intellectual, research, scientific, industrial and application potential that is independently capable of dealing with the problem as a whole: the USSR. The other members of the socialist community can participate effectively in the innovation race only on the basis of close cooperation with the USSR and among themselves.

We are witnessing a distinct intensification and acceleration of cooperation among the socialist countries in this area. One has only to review the documents of previous CEMA sessions, especially the formulations contained in the previously cited Moscow Declaration, "Recognizing that the comprehensive acceleration of scientific and technological progress is a problem that is especially current, the meeting participants agreed to, on the basis of national programs, a comprehensive program for scientific and technological progress over a period of 15-20 years as the foundation for developing a reconciled and in some areas a uniform science and technology policy in order to solve problems more quickly via joint efforts in the area of science and technology and to apply achieved results to production processes in the interested countries for the material benefit of all."

With regard to cooperation vis-a-vis innovation, emphasis was also placed on bilateral documents outlining the directions of development to the year 2000. The "Long-Term Program to Expand Economic and Technological Cooperation Between the Polish People's Republic and the Union of Soviet Socialist Republics Up To the Year 2000," which was signed 4 May 1984, is especially important for Poland.

#### Cold Breezes

The "brain drain," which was popularized at the end of the 1960s and beginning of the 1970s by the French politician and publicist Servan-Schreiber in the then widely read book "THE AMERICAN CHALLENGE," is a foreign concept for the socialist community. The socialist community supported and continues to support extensive economic cooperation, including the mutual transfer of technology. One of the channels of East-West cooperation during the 1970s was the growing ranks of industrial cooperation associations. They were based on

the belief that it was desirable to expand industrial cooperation within the convention of multi-year agreements.

The end of the 1970s and beginning of the 1980s ushered in cold breezes from the West and a clear tendency to treat international economic cooperation as a instrument of policy directed against the socialist community. For example, the reply of Dr D.R. Tahtinen, United States State Department deputy undersecretary for international trade controls, leaves little room for optimism. He said: "The process of abandoning economic detente did not proceed smoothly. The differences within the NATO alliance regarding the comprehension of the strategic significance of East-West trade evolved to such a degree that, at times, the road was bumpy. We should be pleased that this period is now behind us, and that we have now strengthened our mutual security by collectively developing an approach in the West's economic policy toward the East, an approach that we hope will be obligatory till the end of the decade and perhaps even later."

This is a clear reply that for many years we can count on actions that will disrupt East-West industrial cooperation. In view of such statements from official representatives, and especially in view of the practical actions taken at times by the West, such as boycotts and blockades, the socialist countries had to make decisions to accelerate, via its own efforts, the development of technological and organizational innovations. One of these decisions is to support direct cooperation among large producers and to create multinational enterprises. From this viewpoint, as emphasized by CEMA Secretary W. Styczen in the TRYBUNA LUDU interview of 27 December 1984, we must deal with the intensive development of a new stage of cooperation among the CEMA countries. Among other things, this presumes a rapid acceleration of scientific and technological progress in the socialist countries based on the jointly developed 15- to 20-year comprehensive program. With the agreements achieved to date, we now know that the priority directions for scientific and technological progress will be:

- the electronization of the national economy (popularizing electronic computer equipment);

- automation (industrial operations, flexible automatic production systems);

- atomic energy;

- biotechnology (improving agricultural productivity, modernizing industrial production methods, for example, pharmaceuticals);

- material engineering (including conservation of energy and materials).

All of these 21st century fields of scientific research and advancements in industrial development are also included in the implementation program approved by the Polish-Soviet Economic Cooperation Commission at its 27th meeting (October 1984).

The mechanism for establishing prices to settle mutual turnovers is one of the most economically objective foundations for economic partnership among the CEMA countries that is convincing to all. Price is that essential factor in every area of economic cooperation that to a great extent predetermines the distribution of benefits among the partners. At the same time, price is an instrument to stimulate interest in expanding cooperation.

#### The Price Mechanism

The price mechanism principles that are obligatory in cooperation among the CEMA countries have the following basic traits:

- they are based on the average price levels used in world turnovers;
- they do not include the disruptive factors that are characteristic of the capitalist market, for example, sudden market fluctuations, speculative activities, rapid price changes and the like;
- they take into account objective trends for increased outlays or production costs (for example, in the extractive industry).

In a capitalist economy, price is the main factor for extracting benefits for the stronger partner, but in cooperation among socialist partners, price should be a compromise, guaranteeing, in an objective manner, a just distribution of benefits.

The foundations of economic partnership within CEMA are the result of the sociopolitical system of its member countries, and these foundations are being improved and expanded continuously. The socialist countries included the main guidelines for developing this process in the Moscow Declaration. Under present conditions, the CEMA countries believe that it is necessary to improve the mechanism of cooperation within the CEMA framework such that it would correspond more closely with the task to improve the international socialist division of labor and its effectiveness to finally resolve the growing problems, and to strengthen the interest of the CEMA countries in the priority expansion of mutual cooperation. The current task to combine organically cooperation in the area of planning with the active use of goods and money relationships still remains.

As I mentioned already, hundreds of thousands of people are implementing economic partnerships. Economic negotiations of all kinds and at all levels, which are producing material benefits, are the main areas in which these principles are being implemented. Depending on their subject matter and the time frame of the given venture, these negotiations can be labor intensive, complicated and long-term endeavours. As these negotiations become more difficult, the number of solutions offered by the negotiators increases. Economic negotiations are not and cannot be like discussions among delicate, retired ladies. After all, such a discussion style would not produce the optimum results that, in accordance with the philosophy of economic partnership, must consider, as is fitting, the interests of all the negotiating sides. The principles of partnership in the socialist community can be fully implemented in economic practice when the negotiation is backed

up by a modern, efficient economic system that is open to innovations and the discipline of a central economic plan that takes into account the priorities of total interests over group interests, and, finally, when the negotiators exhibit the greatest care in selecting and using economic knowledge.

#### FOOTNOTES

1. R. Nixon, "The Real War," Warner Books, 1981.
2. Compare T. Tisunanen's reply in the article "Economic Cooperation Between the East and West" with his reply in the Swedish publication "Everyday Problems in World Politics" (October 1984) in which the author states that at the end of the 1970s "an impasse arose between the United States and Western Europe over the question of trade as a political factor in the ideological struggle. The United States was thinking in terms of political aspects, but Western Europe did not want to give up the economic advantages of trade with CEMA."
3. A communique on the results of the economic meeting in Moscow (concerning the founding of CEMA) 5 and 6 January 1982 quoted in B.W. Reutta's book "BASIC CEMA DOCUMENTS," Warsaw, 1972, (KiW).
4. Erklarung zu den Ereignissen en Polen. BYULETYN URZEDU PRASOWEGO RZADU FEDERALNEGO RFN, Bonn, 13 January 1982.
5. T. Tiusanen, "Economic Cooperation Between the East and West," the Swedish publication "Everyday Problems of World Politics," October 1984.
6. Announced in the periodical "ADELPHI PAPERS," London, 1984, under the title "Economic Relations Between East and West."

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CSO:2600/744

CZECHOSLOVAKIA

## IMPROPER EMPLOYEE DISTRIBUTION BY QUALIFICATIONS CRITICIZED

Prague PLANOVANE HOSPODARSTVI in Slovak No 1, 1985 p 31-37

[Article by Eng Irena Zilova, CSc., Research Institute of Social Development and Labor, Bratislava: "The Work Force and Wage Policies-Employee Qualifications and Work Place Requirements"]

[Text] The development of a mature socialist society is connected with consistent growth of the educational and qualification level of the population. New scientific and technical findings, structural changes in the national economy and changes in production conditions call for ever higher qualifications of the work force and increasing job requirements.

The development of qualified employees was very dynamic in the CSSR in the period 1973 to 1983 with educational and qualifications levels constantly growing. At the present time, however, attention is focused on the problem of effective use of employee qualifications which is based on an overall balance between the required and the available potential of qualifications in all branches of the national economy. Results in this direction are not very favorable. This is confirmed also by comparing positions held by specialists with the required and attained university and secondary school education which indicates poor efficiency in utilizing employees' qualifications. In 1983, of 732,000 specialist positions requiring university education, the qualification requirements were met by 524,000 employees, or 71.6 percent, whereas 46,000 university-educated specialists were working at jobs calling for less education. In the case of 1,168,000 specialist positions which required full secondary school specialist training, 1,071,000, or 91.7 percent, met the educational requirements while 76,000 employees with this level of education were working in positions calling for less education and 196,000 in positions calling for higher education.

In order to analyze the relationship between employee qualifications and job requirements and to explore the reasons that lead to negative features in utilizing qualification potentials in branches of the national economy, the methodology based on censuses, micro-censuses and statistical analyses is no longer adequate. Consequently, we directed our own research toward sociological empirical studies in order to obtain a more detailed picture of the processes which in selected working systems forming the economic system determine changes in the qualification structure of the work force.

By means by surveys in selected branches of the national economy, we ascertained the development of qualifications in connection with R&D, the innovation process, work places, the educational training system and other aspects, with the objective of determining causative factors in these relationships, their barriers as well as potentials in the field of the qualified work force. In our selection we included branches which we consider critical to the development of the Czechoslovak economy at the present time, that is, engineering, the electro-technical industry, the chemical industry, construction and agriculture.

In a specific working system, the problem of relations between employee qualifications and the work performed has differing dimensions. The starting point for their analysis could be directed toward the formal qualification indicators, such as the level of education attained, specialization field, assignment to qualification grades, etc., and their comparison to the character of conditions in which the employee performs his work as expressed by the technical equipment of the work place, objective factors affecting work performance, etc. Such a comparison permits the formulation of problems on the basis of individual dimensions, that is, the influence of the relationship between the qualification and the work performed by individuals and on the basis of the given dimension of the organization, the organizational group and of all society.

We will attempt to trace the study of this complicated problem from the viewpoint of the working subject, evaluating the conformity between the formal qualification indicators required by the organization, the actual proficiency in performing the work and the work performed. This is an evaluation of the process in which the individual strives toward a balanced adaptation to the working system and the working system adapts itself to other external processes and to the capabilities and other contributions of the subject to the working process. To evaluate these processes we are using sociological techniques which enable us to analyze the relationships under study, their direct and retroactive influence on changes in qualifications and on the orientation of the subject in terms of value.

Although partial branch analyses indicate much conformity in the conditions, status and processes in the area of employee qualification between groups of workers and technical-managerial employees (TME hereafter), there were among them certain fundamental differences which required separate evaluation of these groups.

Characterization of the qualification level <sup>1)</sup> according to the degree of education of a group of TME in selected branches gives the following summary of the highest educational level attained (in percentages):

<u>Level of Educ.</u>	<u>Engineering</u>	<u>Chemistry</u>	<u>Construc.</u>	<u>Electrotech.</u>	<u>Agric.</u>
Elementary	1.1	0.7	3.3	2.1	4.4
Vocational School	3.5	2.7	5.9	2.4	6.7
Vocational School with diploma	1.9	1.6	3.3	0.3	2.7
SO [possibly study section]	9.9	6.6	13.1	12.6	8.9
USV [possibly general education]	4.2	2.5	5.9	3.3	4.4
USO [general education diploma]	54.4	56.4	42.5	58.4	51.3
VS [university]	24.7	29.0	24.0	20.0	21.6
Scientific degree	0.3	0.5	2.0	0.9	-
Total	100	100	100	100	100

1) We consider qualification from the aspect of its chief component--the education attained. In some studies we supplement it with an experience component; other components, because of the problematical quantity, are disregarded.

Research in all branches checked showed that the degree of education attained is not always a continuing characteristic of the work requirements. Thus the thesis that the more demanding the work the higher the education required does not always fully apply.

Qualification requirements of work in relation to qualifications of TME in selected branches show more closely the relationship between work performed and the qualification needed (in percentages):

Conformity of employee qualification and job	<u>Enginr.</u>	<u>Chem.</u>	<u>Construc.</u>	<u>Electr.</u>	<u>Agric.</u>
Conform	72.5	72.2	67.3	73.6	62.0
Requirement higher	11.2	9.2	8.6	11.7	10.5
Other area needed	4.7	6.0	5.2	5.1	4.3
Lower qualif. suffices	8.7	11.0	15.0	8.1	16.3
Experience suffices	2.9	1.6	3.9	1.5	6.9

As the survey indicates, there is an imbalance in all branches between the job qualification requirements and the required qualifications from the viewpoint of acquired qualification: 31.1 percent in agriculture, 28.8 percent in construction, 26.2 percent in chemistry, 24.9 percent in electrotechnology and 24.6 in engineering.

In the overall group under study, serious problems are indicated in the relationship between employee requirements and job requirements, that is, in the area of TME qualifications utilized. The proportion of underutilized qualifications is striking, especially in agriculture and construction. Results based on the age structure of underutilization of qualifications show that in all branches a relatively high proportion of employees is in the 24-29 year and 30-34 year category. In view of the importance of the age factor in the process of qualification growth, this is one of the warning signals for the problem of adapting the working system to attain optimal status.

The following table shows the extent to which TME are forced to perform work requiring lower qualification which, from an economic point of view, could more efficiently be performed by employees with lower qualification; and how this is reflected in individual branches according to the proportion of work time (in percentages):

TME working at jobs requiring lower qualifications	<u>Enginr.</u>	<u>Chem.</u>	<u>Construct.</u>	<u>Electr.</u>	<u>Agric.</u>
More than half	9.3	7.1	17.9	8.4	12.5
1/3 to 1/2	20.9	24.2	25.8	20.2	18.9
1/5 to 1/4	27.7	26.0	27.8	31.9	19.6
only unavoidably, very seldom	32.7	30.9	22.5	30.4	32.8
Not at all	9.4	11.8	6.0	9.1	16.2

The picture is filled in by the number of respondents who, by their education, capabilities and experience, could perform more demanding work, hold more responsible jobs or higher positions. In chemistry this figure is 58.5 percent, in construction 54.3 percent, in engineering 50.8 percent, in agriculture 44.9 percent and in electrotechnology 44.4 percent. This unsatisfactory situation is closely connected with the utilization of TME qualifications and especially with management of the quality of the qualification structure of enterprise employees. Even taking into account a certain influence of subjective evaluation in the survey, the inefficiency of distribution of work in the various branches is significant.

This kind of situation leads to an undesirable fluctuation among employees. As confirmed by the study, every fourth TME in engineering and every fifth TME in the other branches changes jobs because his qualifications are not fully utilized.

An important element of the working system which can have a positive influence on the balance between an employee's qualifications and the job requirements is the management sphere. Management employees are the basic factor at the work place and they can effectively see that the objective demands of work and the subjective qualifications of the employees are in agreement. The efficiency of their actions can be judged, along with other criteria, by considering the assignment of TME to work requiring lower qualifications which in the given group badly affects the distribution of work in all the branches under study. Management influences the level of proper utilization of qualification potentials which, according to our survey, have considerable unused capacity.

In checking the various branches, we obtained certain specific data which further show the overall level of the infrastructure under study:

- In engineering, construction and agriculture, the qualifications of women very often do not conform to required qualifications; women more often are doing work for which a lower qualification suffices;

- In engineering, there are more often greater numbers of secondary school and university graduates who perform work for which lower qualifications would suffice;

- In construction, there is, on the average, a considerably greater discrepancy between prescribed and attained qualifications among those employees who carry out changes in the technical development of the enterprise.

In the group of workers, the opportunity of comparing branches is often limited by the fact that in construction and agriculture the technical, organizational and qualification conditions are so disparate that they have a direct impact on lowering qualification requirements and on different principles of remuneration. Nevertheless, this group also provides us a summary of key relationships vital to the making of sociotechnically important conclusions in the area under study.

The following summary characterizes the qualification level of a group of workers based on the highest education attained ( in percentages):

Educational level	<u>Enginr.</u>	<u>Chem.</u>	<u>Constr.</u>	<u>Electr.</u>	<u>Agric.</u>
Elementary	22.3	24.3	9.5	48.7	36.8
Skilled training	64.8	53.6	79.6	43.5	56.4
Skilled training with diploma	3.5	6.3	1.9	0.3	0.9
SO	2.9	3.1	4.2	3.3	2.8
USV	1.2	3.3	1.6	1.3	0.6
USO	5.2	9.3	2.4	2.8	2.5
VS [university]	0.1	0.1	0.8	0.1	-
Total	100	100	100	100	100

Utilization of the level of qualification and the conformity between qualification requirements and work performed by a group of workers are expressed in the following tables (in percentages):

Conformity of worker qualif. and his job	<u>Enginr.</u>	<u>Chem.</u>	<u>Constr.</u>	<u>Electr.</u>	<u>Agric.</u>
Conform	74.7	64.8	80.3	75.0	79.9
Not conformable, spec. traing. higher	10.5	10.4	10.9	7.5	5.2
Not conformable, spec. training is lower	4.1	3.7	2.0	3.5	6.2
Not conformable, spec. traing. higher but in different field	3.4	5.5	3.7	3.5	3.6
Not conformable, traing. is different	7.3	15.6	3.1	10.5	5.1
Proportion of jobs with- out prescribed qualif.	12.0	24.0	3.0	38.8	24.3

#### Work According to Workers' Occupational Field

Occupational field	<u>Enginr.</u>	<u>Chem.</u>	<u>Constr.</u>	<u>Electr.</u>	<u>Agric.</u>
Qualified in own field	58.4	45.9	65.8	39.9	55.6
Qualified in re- lated field	25.2	24.3	26.8	31.3	26.5
Entirely other field	16.4	29.8	7.4	28.8	17.9

Concerning the conformity between qualifications and work performed, it appears that on the average the absolute majority of the group of workers hold jobs in their own field. Conclusions from research done so far, however, clearly show that work in a related field should be considered functional, particularly because it is the result of selection with respect to the worker as well as the interests of the enterprise and efficient work. This alternative represents as much as one-fourth of the workers.

Nevertheless, we cannot get around the fact that as much as one-fifth of the workers hold jobs in an entirely different field which had not become and probably never will become their own. This one-fifth represents one of the main groups whose qualifications are not utilized and one of the chief barriers to good work performance. Work in another field is a particularly important problem in those key branches of technical advancement such as electrotechnology (including electronics) and chemistry where 3 of every 10 such workers work. Nor is the situation satisfactory in this regard in engineering and agriculture. Only construction shows permissible norms where every 14th worker is thus affected. In light of these facts it seems necessary for all branches to establish long-term goals--to match up the specialized preparation of employees with requirements which scientific technical development needs, particularly in the transition to higher levels of mechanization and automation. On the inter-branch scale this applies especially to unskilled women and graduates of secondary general education schools and, by occupation, workers in warehouses, shipping, pressmen, galvanizers, workers in plastics, assembly workers, drivers, drivers' helpers and laboratory technicians.

From the sample studied, it emerges that at least one-seventh of workers originally worked at their occupation but they no longer do. This attests to considerable qualification losses which workers are sustaining in the course of the working process and which have a negative impact not overcome even by the high occupational stability in the various branches.

Comparison of the conformity between the level of qualifications attained and the job performed further shows that one-fifth of workers are in jobs for which there is no prescribed qualification. This is chiefly represented in the electrotechnical industry (two-fifths of workers), that is, the branch with a preponderance of women workers. This situation occurs only exceptionally in construction.

From inter-branch averages, it is estimated that every 15th skilled worker, every 9th worker with secondary specialist training and every 16th worker with full secondary specialist training are working at work sites without prescribed qualifications.

At work sites with prescribed qualifications, 75 percent of workers are performing work which matches their acquired qualifications. This favorable job situation is in construction and agriculture. On the other hand, it is surprising that in chemistry the match is not even two-thirds.

Between two kinds of vertical discrepancies, the lack of conformity between higher education and lower work requirements (every eighth worker on a job with prescribed qualifications) is 3 times higher than the lack of conformity between lower education and higher job requirements (every 24th worker).

Cases of inadequate utilization of higher qualifications occur relatively most often in chemistry; however, the difference compared with most of the other branches under study is not great. The lowest proportion of underutilized higher qualifications at jobs with prescribed qualifications occurs in agriculture where it is every 11th worker.

The representation of those workers who say that their specialized education does not attain the qualification prescribed for the work performed differs by branches. It may be assumed that the actual proportions, compared with the results of the survey, will be somewhat higher, but the differences among branches are probably indicated properly. And these show that in this area most problems, relatively speaking, are in agriculture where the proportion is as much as 3 times higher than, for example, in construction.

For basic conditions of proportional development of the national economy there absolutely must be optimal conformity between workers' qualifications and the requirements of the job, which is the premise for efficient utilization of the work force. The importance of this relationship is increasing in the process of R&D whose course is marked by the gradual substitution of simple work requiring low qualifications with work of a demanding nature.

So that we may be sure that the qualification structure of employees is in conformity with qualification requirements of work, we must be certain to recognize the external and internal dependency of these relationships, not only in the macro-structure but through the infrastructure system to the level of the enterprise, specific production and specific socio-economic activity.

Analysis of the relationship between the mutual interaction of employee qualifications and job requirements on the basis of empirical regional surveys showed that these relations are constantly undergoing very intensive changes, that internal and external factors influence them and that with respect to their intensity they are subject not only to the direct influence of individual factors on qualifications but also through the influence on work performance and thus also on qualifications.

Among the specific conclusions there is a particularly important finding about the unused qualification potential in the branches of our national economy. In certain branches the absolute majority of workers are capable of performing more demanding work, holding more responsible jobs or higher positions. This results in limited operation of the given work system with respect to its influence on the qualification process. There arises the problem of how to make use of this potential. It is not only a matter of using hidden potential but a problem of possible devaluation of the qualification potential or its share and linkage to other processes which occur in society.

The work force influences the functioning of the whole economic system through the level of its current and future performance and thereby the development of other systems operating in society. At the same time, this reveals the gravity of the relationship problem as indicated and the necessity of resolving it so that we may utilize more efficiently the qualified work force in Czechoslovakia.

8491

CSO: 2400/370

## CHEMICAL INDUSTRY STATUS, PERSPECTIVES VIEWED

East Berlin AUSSENWIRTSCHAFT in German No 9, 1985, pp 44-45

[Article by Dr-Eng Jiri Marci: "Status and Perspectives in the CSR"]

[Text] The chemical production in the Czech Socialist Republic (CSR) is covered by the economic organizations of Chemopetrol, Unichem, Lachema, and the Czech Rubber and Plastics Works. These economically pace-setting organizations are equipped with their own research and development base, which guarantees the continued systematic development of the chemical production.

The chemical industry of the CSR in its present structure forms a complete industry branch in which the main areas of production are methodically improved and developed. A significant success in the sixth five-year plan (1976-1980) was the expansion of a protochemical base which along with the production of ethylene, propylene,  $C_4$  and  $C_5$  fractions as well as benzene made possible the ABS resins and rubber from low pressure polyethylene, polypropylene, PVC, polystyrene in an extensive production assortment. The products are in great demand for the chemistry program of the CSSR as well as in the international trade exchange with chemical products.

In the seventh five-year plan the expansion of additional large production installations is being completed, which will develop further the production possibilities of the Czech chemical industry. This concerns mainly the production of acrylic acid, its esters, and dispersions prepared from it. Furthermore it includes the production of aniline, an important industrial intermediate, for organic synthesis and for international trade as well as the production of printing pigments and modern coating materials. In 1985 in the Czechoslovak-Soviet Friendship Chemical Plant (ChZ CSSP) a production line for the production of electrolytic soot was started up, which not only replaces its importation into the CSSR but also will be an important trade position for exports.

In the CSR chemical industry the production of special chemicals is being developed, above all in the Lachema Economic Organization. At present the electro-technical industry is being provided with photo-sensitive solutions and some chemicals with a high degree of purity.

The production lines for gases of high purity are being enlarged; these are also destined for the electrotechnical industry. For the medical field the production of highly effective cytostatics is being introduced into this economic organization, which are already being applied in clinical practice and help in the conservative therapy of malignant tumors.

The participation in the distribution of labor within the scope of the CEMA makes a series of demands on the chemical industry. This concerns above all the exportation of petrochemical products, in which case in the area of olefines the agreement reached between the CSSR and GDR can be used as an illustration. This agreement has made possible the optimum allotment of deadlines in both countries for the expansion of petrochemical production lines, and to accelerate the supplying with their own olefines and plastics to points in time that could not be achieved with the separate expansion of the capacities of both countries. During the years of the seventh five-year plan the second stage of the agreement was finalized; the protocol for the third stage after 1985 was also prepared and already signed by the government officials of the CSSR and the GDR. This deals further with the exporting of organic dyes, inorganic pigments, coating materials, fine chemicals, diagnostic aids, biologically active substances for animal husbandry, lead-free anti-knock compounds, pharmaceuticals, preservatives, adhesives, photographic chemicals, chemical fibres, tires, commercial rubber products, asbestos products, and a broad range of other products.

The necessary importing of chemical raw materials, industrial intermediates, and finished goods from the non-communist countries at the same time requires exporting to those countries. In this respect too the chemical industry has a broad selection of industrial intermediates and finished goods available that are in demand in the non-communist countries. Significantly it is petrochemical products, organic dyes, chemical specialties, and rubber products, which form with additional products the basis for this international exchange of chemical products. The chemical industry of the CSR constantly seeks additional ways to intensify this cooperation.

A significant trade possibility is also the setting up of a mutually favorable trade with developing countries, from which the CSSR imports certain raw materials for the chemical industry and to whom chemical products are exported. Tradition, experience, and a developed production technology base of the chemical industry of the CSR provide for the future an important precondition for the establishment of good commercial partnerships with the recognition of the principle of mutual advantage.

The development possibilities of the CSR chemical industry in the eighth and ninth five-year plans (1986-1995) are determined by the existing technological base, by the amount of imported petroleum and other raw materials, by the financial investments in the expansion

of production lines on the one hand, and by the interest of the customers on the other hand. These basic factors determine the development of the chemical industry in the 1980's and 1990's and require their consideration during the working out of the development prognoses. In the main areas of the chemical production in the CSR the development in the following direction can be expected:

- In the industrial area of "basic inorganic chemistry" the structural reworking of the production is continuing, and in fact with the introduction of the production of liquid nitrogenous and mixed fertilizers, which make possible a more effective utilization of pure nutrients for the growth of farm crops. The goal-oriented assignments provided for the production installations for liquid fertilizers will also improve transportation conditions since in this manner the distances between the fertilizer producers and users in the separate districts of the CSR are shortened.

- Progress is being made in the improvement of quality in the production of inorganic pigments with increased care for the environment, for the tailings from the titanium oxide production for use in cement production and for the neutralization of soil acidity.

- The production of pure caustics is being further developed, above all for export to the USSR.

- The development of the petrochemical base is being started up mainly in its structure.

- Recently a pilot plant for the production of polyphenyl oxide was started up; then an installation with a large capacity would be built on this principle.

This important synthetic substance for the electrotechnical industry and for the highly developed areas of machine construction as well as the production of alkaline polyamide will increase the selection of synthetics and also improve the conditions of international trade.

- For the optimum utilization of the olefin production line in the ChZ CSSP plant the expansion of the alpha olefin installation for the domestic market as well as for foreign trade is being considered.

The structure oriented reconstruction of the Czechoslovak chemical industry aims at the support of the development of the production of specialty chemicals in the O.P. Lachema and also in other economy influencing organizations. This is concerned here with small quantity chemicals for the electrotechnical industry, especially for electronics, with diagnostic aids and pharmaceuticals, with additives for animal husbandry and farming as well as with photographic chemicals. Through priority development of these areas of production the objective is

realized at the same time of reducing the need for chemical production of raw materials and products with a higher proportion of skilled labor and thereby creating the basis for international trade for more energy-intensive products.

With the expansion of the cracking installation during the eighth five-year plan the chemical industry of the CSR will improve among other things the structure of the production of light petroleum products, even with a shortage of petroleum, in the economy of the CSSR.

Also, the development of the production of rubber products is aimed at the improvement of the supply covering all requirements of the economy as well as at the intensification of international trade. The production of automobile radial tires with high dynamic uniformity, of broad profile tires for the Tatra 815 truck and of narrow profile tires for the Avia truck, of rubber coated cylinders, and commercial rubber products forms in the eighth five-year plan the fundamental tendencies following which the chemical industry of the CSR will develop further.

12446

CSO: 2300/384

CZECHOSLOVAKIA

## MACHINE TOOL AGE STRUCTURE IN CSSR DISCUSSED

Prague HOSPODARSKE NOVINY in Czech No 13, 1985 p 7

[Article by Eng Ladislav Stastny, ScC, Research Institute of Machine Technology and Economics, Prague: "To Expand Exports -- Reconstruction and Modernization as Methods Determining the Process of Investment"]

[Text] Our institute participated in the preparation of documentation for a report entitled "Implementation of the Program for Reconstruction and Modernization of the Engineering Production Base in the Seventh 5-Year Plan" and for a proposal of the program for the Eighth 5-Year Plan for the CSSR government. Its adoption was confirmed by decision of the Presidium of the CSSR government No 99 of 7 June 1984. I consider it important to acquaint the sphere which will implement that decision with the motivation leading to this concept, especially because the fulcrum of its implementation will rest on our enterprises; it will be determined by their ability to get involved in socialist undertaking and to propose plans to that end without waiting for decisions from sectors and management of the VHM [economic production units].

In its decision the Presidium of the CSSR Government noted that the program for reconstruction and modernization could not be fully implemented in the Seventh 5-Year Plan because all necessary material and methodological prerequisites for that had not been created. The principles and the focus of the program for the Eighth 5-Year Plan are linked with the enforcement of reconstruction and modernization as the decisive forms in the whole investment process. Therefore, Deputy Premiers of the CSSR Jaromir Obzina, Svatopluk Potac, and Josef Korcak; Peter Colotka, the minister of finances of the CSSR; the minister chairman of the Federal Price Bureau; the chairman of Czechoslovak State Bank; the ministers of general engineering, metallurgy and heavy engineering, and of electrical engineering were assigned the specific task to prepare appropriate regulations and concrete methods.

### Under the Slogan of Good Stewardship

The principles for the orientation of the program are aimed primarily at thorough interconnection of the technological and investment policies of the sectors and the VHM's. Actions (without financial restrictions according to the heretofore application of categories of construction projects, machinery and equipment not included in the budget and methodology for the

Seventh 5-Year Plan) are focused above all at the introduction of innovation of goods with demonstrably high technological standards, at the introduction of advanced technologies for the manufacture of products that are salable and capable of competition, and at better processing and utilization of material and energy resources, with consideration of the culture of society, safety, labor hygiene and environment.

The [principles of the program] demand that the investment process be rationalized on a priority basis by actions implemented in such a way that the existing areas be not essentially expanded by new acquisitions of land, and that they be oriented toward unified production sectors -- workplaces, shops, operations, factories. In other words, engineering branches will select the most effective programs, negotiate on the level of the investors' and contractors' central managements deliveries of supplies, and propose, particularly for the state plan, economically relevant programs. The necessary methodology and organizational measures for that purpose will be provided. Furthermore, the [principles of the program] demand that material and organizational conditions be created for the acquisition of the necessary advanced technology both of our domestic production and imported, with the awareness that, according to projections, the full line of manufacturing technology cannot be obtained even in the future in the CSSR.

The principles stipulate that economic and material conditions be also adapted by contractors of construction works so as to eliminate the differences between new construction projects and reconstruction. They deal with the potentially necessary temporary interruption of production during the process of modernization, which will be considered already when preparing pertinent sections of the plan and when determining the advantages accorded to programs of reconstruction and modernization in credit policies of the Czechoslovak State Bank. They have not omitted the necessary simplification of the pre-planning and planning documentation and its approval, registration and licensing procedures. The importance of the adopted principles and measures is evident from the report presented by the Presidium of the CPCZ Central Committee at its 10th Plenum, as well as from governmental decision No 235/1984 -- "Measures for the Implementation of the Tasks of the CPCZ Central Committee with Respect to the Program and Development of Engineering, Electrical and Metallurgical Industries After the 16th CPCZ Congress," which also extended the period of their applicability to a long-range projection.

Their importance stems from the need to utilize the stockpiles accumulated thus far in the development of technology and production base, to accelerate the intensification of our engineering industries, and from the changed internal and external conditions which are evident in the direction toward availability of the sources of production as well as toward greater ability to compete and to sell our products.

The extensive character of the development of the engineering production base remained stable for a long period up to the Sixth 5-Year Plan. New construction projects continued basically at the same rate -- operations on areas of about 2 million square meters in each of the 5-year plans (2,273,000 square meters in the Third 5-Year Plan, 2,179,000 square meters in the

[Table]

## Age Structure of Machining and Shaping Tools

VEKOVÁ STRUKTURA OBRÁBĚCÍCH A TVÁŘECÍCH STROJŮ						
(1) země	(2) Rok zjištění	(3) Průměrná stáří	(4) Stroje ve stáří -- v letech v % z celk. počtu kusů			
			(5) 0-4 let	(6) 0-9 let	(7) 20 let a více	
(8) CSSR	1981	17,7	11,7	26,9	39,7	
(9) USA	1983	15,0	13,1	32,8	33,2	
(10) NSR	1980	13,6	15,0	34,0	48,0 <sup>1</sup>	
(11) Kanada	1978	14,8	•	35,7	33,8	
(12) Francie	1980	14,7	16,0	35,0	32,0	
(13) Itálie	1975	12,4	•	38,1 <sup>2</sup>	28,0 <sup>3</sup>	
(14) Velká Británie	1982	11,7	42,3 <sup>4</sup>	•	27,2	
(15) Japonsko	1981	10,5	•	36,4 <sup>5</sup>	35,6 <sup>6</sup>	
(16)	1 starší 15 let, 2 0-8 let, 3 starší 18 let, 4 0-5 let, 5 0-7 let, 6 starší 11 let					
(17)	Pramen: CSSR: Soupis strojů a zařízení ve strojírenství, VÚSTE; ostatní země AMERICAN MACHINIST, Nov. 1983					

## Key:

- |  |   |
|--|---|
| 1. Country   | 13. Italy   |
| 2. Year of inquiry                                   | 14. Britain   |
| 3. Average age                                       | 15. Japan   |
| 4. Machinery -- years old<br>in percent of all units | 16. <sup>1</sup> over 15 years, <sup>2</sup> 0 - 8<br>years, <sup>3</sup> over 18 years,<br><sup>4</sup> 0 - 5 years, <sup>5</sup> 0 - 7<br>years, <sup>6</sup> over [18] years |
| 5. 0 - 4 years                                       | 17. Source: CSSR: List of<br>machinery and equipment in<br>machine engineering, VÚSTE;<br>other countries: AMERICAN<br>MACHINIST, November 1983                                 |
| 6. 0 - 9 years                                       |   |
| 7. 20 or more years                                  |   |
| 8. CSSR  |   |
| 9. USA   |   |
| 10. FRG  |   |
| 11. Canada   |   |
| 12. France   |   |

Fourth 5-year Plan, 1,778,000 square meters in the Fifth 5-year Plan, and 2,079,000 square meters in the Sixth 5-year Plan). Reconstruction and modernization of the existing capacities on a priority basis could not be enforced in the whole investment process.

By the same token, labor productivity in the Czechoslovak engineering industry (expressed in the value of gross production converted to comparable world prices) has been conspicuously below that in the industrially advanced non-socialist countries. In international comparison the increase of investments (the increase in the production for the investment expended) has been distinctly less efficient as well, which was due not only to the overall technical-economic standard of the goods but also to the method of their production, in other words, to technology. That is obvious from the structure of the engineering labor input in our basic production, which remained unchanged over an extended period, and from the high share of labor input in auxiliary and service production where, for example, 17.8 percent of all workers in engineering production are employed in the sectors of handling, transportation and storage, and 20.2 percent in the sector of manual labor.

#### Machinery Rather Than Construction Projects

The relatively low standard of technology also stems from the slow renewal rate and inadequate phasing-out of obsolescent technology (2.6 percent of all machinery is annually phased out) as well as from insufficient introduction of new, advanced machinery. For instance, the share of machine tools less than 10 years old declined from 32 percent in 1971 to 28 percent in 1983, which is a reverse trend to that in the industrially advanced nonsocialist countries, as shown in greater detail in the table.

That is evident from the slow introduction of production technology with digital control, which facilitates adaptable, comprehensive automation of production. Over the past 10 years the share of NC machining tools in our country rose from 0.7 percent to no more than 1.3 percent, while their share in industrially advanced nonsocialist countries increased dramatically during the same period.

The introduction of technology required for the production of qualitatively new, never before manufactured goods and components is proceeding very haltingly and that adversely affects our situation as exports are concerned. Both the manufacturers and the consumers lack facilities needed for modernization of general repairs. Even in projection it will not be possible before 1990 to acquire, for example, the whole necessary assortment of machining and shaping tools from our Czechoslovak production or from imports from the CEMA countries.

From an analysis of availability of such technology, based on comparisons of the structure of assortments of products manufactured by the CEMA up to 1990 with the structure of technology installed in Czechoslovak engineering industries it follows that 10 percent (20,600 units) of machining tools represent assorted items that will not be manufactured in the CSSR or in the CEMA; 32 percent of them are machine tools more than 31 years old; 34 percent of

shaping tools and 23 percent of machine equipment are over 31 years old. In addition, there is a serious problem with electronics for automation. In the case of world manufacturers the cycle of innovations in this area concerns at most cycles of 3.5 years.

The problem of an inevitable acceleration of the intensification process, however, must also be viewed in the context of the great changes in the world over the past 20 years. Engineering production was developed and greatly expanded in many countries in Europe and in a number of the developing countries which once used to cover their needs practically with only imported engineering products (see the report from Mexico in HQSPODARSKE NOVINY Nos 51-52, 1984). In the early 1960's only about 15 of them were exporting machinery. At that time the CSSR held the 8th place among world machinery exporters, ahead, for example, of Italy, Japan, etc.

In the early 1980's more than 70 countries in the world had their own important engineering production and more than 40 countries were prominent exporters. In the early 1960's the value of our exports was twice as high as total exports of 12 of the then marginal countries, such as Spain, Portugal, Greece, Ireland, Norway, Finland, Brasil, Argentina and Columbia, but in the early 1980's those 12 countries were already exporting four times more machinery products and tools than the value of our 1981 exports (source: VUZO [Foreign Trade Research Institute] in Prague).

This demonstrates that more and more countries are entering the world market not only as manufacturers but primarily as exporters. Fewer and fewer countries must cover their needs from imports. Only a flexible, adaptable competitor with guaranteed technological standards and quality can win. The determinant factor is the ability to innovate, adaptability and flexibility, which brings us to the already clear-cut task to enhance the pre-production stages. Compared with the international situation, here we have ample untapped assets, since designers and technicians hold a relatively minor share amounting to 3.1 percent of all employees in the Czechoslovak engineering industry.

#### Adaptability, Not Expansion

The crucial prerequisite for the acceleration of the process of intensification of the technological and production base has already been met with the adoption of the above-mentioned decision by the Presidium of the CSSR government. Although the process of planning of qualitatively new principles and policies and above all, the efforts to enforce them on appropriate levels and [by appropriate] agencies before the definite version and final adoption have not been easy, the decisive problems with their practical implementation are facing us.

Previous practice led to the realization that the program of reconstruction and modernization had not been implemented to its full extent during the Seventh 5-year Plan. It underscores the fact that the enterprises as well as the VUH's and sectors must help accelerate the process of intensification by projecting it into the whole system and process of planning and management

--into their own concept of the program and fulfillment of the Eighth 5-Year Plan. Those tasks cannot be fulfilled without the introduction of an entirely new function of socialist undertaking by the enterprises and VHJ's, which in many ways has been thus far unknown or which has not been adequately evident in the preceding extensive development. According to an analysis by the Foreign Trade Research Institute, 70 of the 259 engineering manufacturing enterprise reported above-average export outputs, of which the outputs in 30 enterprises approached or even exceeded average export outputs of West European enterprises. In fully two-thirds of Czechoslovak engineering enterprises, however, export outputs remain exceedingly low to this day, which may prompt the question of whether [those enterprises] are capable of world competition. Untapped assets in this respect are evident from the realization that "the proposals submitted by the VHJ's for the period of the Eighth and Ninth 5-Year Plans are still lacking a realistic perception of the [customers] to whom the planned increased production will be sold. There is no clear and comprehensive notion about the type of the goods and about the customer because for years manufacturers received all kinds of incentives, while marketing research was ignored." (Eng Stanislav Lafek, director of the department for the development of engineering sectors, FMVS [Federal Ministry of General Engineering], PROGRES No 3, 1984).

#### Where and For Whom

At present we are cooperating directly with engineering sectors in specifying and implementing the tasks of governmental decision No 235/1984, mainly its points II/1 -- rating of technical-economic standards of technologies; II/2 -- analysis of the capacities and specification of the tasks for better utilization, further development and in particular, modernization and reconstruction of the technological production base in order to achieve a growth of the production of advanced sectors and goods; IV/2 -- planning of a program for the development of advanced technology and determination of the type [of technology] which will be imported; IV/3 -- drafting of a program for comprehensive and continuous reconstruction and modernization of the production base in the metallurgical engineering complex.

Here we plan to apply and further improve the achievements of the above-mentioned task of practical implementation not only on the level of sectors but also of VHJ's, both in completing the specification of the proposal for the program of reconstruction, adopted by decision of the Presidium of the CSSR government No 99/1984, as well as its material implementation in the sense of the stipulated principles. In this respect we have already prepared, in cooperation with the Kovoprojekta of Prague, organizational methodology for the needs of the FMVS, FMHTS [Federal Ministry of Metallurgy and Heavy Engineering] and FMEP [Federal Ministry of Electrical Engineering] for the implementation of the program for reconstruction and modernization of the production base in the Eighth 5-Year Plan and for the selection of the most efficient programs of rationalization and modernization in accordance with the stipulations of that decision. On this basis individual VHJ's will submit before 31 March 1985 their proposals for action which will be automatically processed in our institute for evaluation by the FMVS, FMHTS and FMEP according to an advanced method of formulating the concept for a

medium-range development of capital assets, investments, machine tools and facilities furnished with model, programming, information and computer equipment, which will facilitate responses to the changed conditions and fluctuations in the development of production, depending on the opportunity to obtain advanced production technology. In addition, the already completed "Classification of Engineering Capacities" will be applied; it will help enforce in planning and management the options of interchanging programs and capacities of production according to the need to limit the requirements of new buildings, and furthermore, [it will use] an advanced method for rating of the efficiency of enterprises and VHI's in order to take the necessary selective approach to the allocation of investments and to the selection of the most efficient areas and programs of rationalization and modernization.

9004

CSO: 2400/352

GERMAN DEMOCRATIC REPUBLIC

LONG-TERM WORK FORCE PLANNING UNDERWAY

West Berlin IWE TAGESDIENST in German No 53, 6 Apr 85 pp 1-2

[Text] In the ministries and combines of the GDR, as well as in its bezirks and districts, long-term plans for the expansion and utilization of the work force are being developed. They are supposed to insure that a work force "is available in the necessary strength and with the requisite knowledge" in all sectors of the national economy in the future. According to the department head for work force planning of the State Planning Commission, Heiner Merz, this is the prerequisite for achieving a modern economic structure, accelerated growth in productivity and efficiency, and a high rate of scientific and technological progress. Long-term work force planning is also necessary "to guarantee long-term" full employment. According to Merz, revision of the draft work force plans for 1986 to 1990 is currently underway. He stated that the completion of these plans is, however, "to be considered a first step," which, by using annual projections of the long-term plans "and a phased extension of the time frame, will be continued up to 1995 and 2000."

According to the functionary, "more extensive delving into the problems of employing women and retirees" is among the questions to which more attention will be given in working out the plans. More attention is also to be paid to the proportion of the sexes. The demographic decline in the number of female workers "is to be thoroughly examined in view of the effect on enterprises and establishments with a high proportion of women." For sectors such as transport and agriculture, there is to be "a guaranteed expansion of the work force which, proceeding in phases starting with increased productivity, will fully meet labor force needs." Additional workers, he said, will also have to be earmarked for the public's supply and service sectors. Along with this increase, maximum productivity for the public must also be achieved. Moreover, by properly deploying school graduates, "the influence on necessary changes in the structure of the work force is to be increased." Furthermore, the long-term plans are to set concrete targets "to deal with the crucial problems of effectively utilizing labor potential, such as better exploiting work shifts, developing a more effective work force structure, gaining workers by cutting down the number of job slots, using workers in positions appropriate to their qualifications, effectively supporting shift work, and reducing turnover."

GERMAN DEMOCRATIC REPUBLIC

MITTAG CRITICIZES COMBINES' TECHNOLOGY USE

West Berlin IWE TAGESDIENST in German No 55, 12 Apr 85 pp 1-2

[Article datelined Berlin, 12 Apr 85: "SED Politburo member Mittag Criticizes Combines--The Economic Effectiveness of New Technologies Is Too Slight"]

[Text] Guenther Mittag, the member of the GDR leadership responsible for economic questions, has commented critically on the effectiveness of scientific-technical advances in the GDR's economy. In an economic policy article written for NEUER WEG, the SED functionaries' journal, he asserted that in a number of combines it was "not yet understood what it really means to have to achieve scientific-technical results in an economic sense." He said it was not a case of "'embellishing' scientific-technical goals with economic representations." On the contrary, scientific-technical results would have to "be demonstrably expressed in cost reduction and net production increase." Mittag stressed that today's combines have available "all the prerequisites to accelerate scientific-technical progress, to quickly and effectively incorporate the latest discoveries into production, and thus to lay a long-term foundation for good economic yields."

In reference to this, the Politburo member ticked off a series of problems that the GDR economy must solve on a priority basis. To accelerate the introduction of the "newest" techniques into the manufacture of new products with highly productive technologies, the combines' own in-house production of rationalization equipment is to be further developed in significant quality and quantity. At the same time, "all possible energy" is to be expended "to increase the tempo and level of labor productivity." The available reserves for increasing labor productivity are "greater than ever," he said. As an example, Mittag cited robotics technology, which is not being employed effectively enough. It is essential to "fully utilize" this highly productive technology "in a significantly better way" and not "to position" the robot "at the side of the technological process, but rather to integrate it." In addition, Mittag called for "new technological and organizational solutions to preproduction arrangements in the broadest sense." The SED official also emphasized the necessity of offering better export goods; he said the combines would have to respond more quickly to customer demands of the most varied kinds, and would, in addition to the traditional export products, have to offer products and answers "to produce the quantities essential to securing export trade."

HUNGARY

# TAX TABLE FOR COMPUTING TAX ON INDIVIDUAL INCOMES PUBLISHED

Budapest FIGYELO in Hungarian No 15, 11 Apr 85 p 21

[Unsigned article: "Tax Computation--In Seconds"]

[Text] With the following tables we would like to aid enterprises and cooperatives using earnings level regulation. A computer is not needed to use the tables--a simple adding machine is sufficient--and thus one can determine in seconds the tax to be paid on individual earnings--in earnings brackets going from 1 forint to 200,000 forints.

The instructions for using the tables are:

There is a separate table for every tax bracket (for example, 0-24,000 forints, 24,000-36,000 forints, etc.). Every table is divided into three parts--thousands, hundreds and tens-units. The procedure breaks the earnings (tax base) into these three parts, and the partial tax calculated on the basis of the three parts must be summed. For example, the earnings are 68,116 forints.

The earnings are in the 60,000-71,999 forint tax bracket. We find the following in the appropriate parts of the table:

	Earnings	Tax
Thousands	68	8,600
Hundreds	1	25
Tens-units	16	4
		<hr/> 8,629

Use of an adding machine is useful and sufficient for the procedure. Another example, the earnings are 139,879 forints. The earnings are in the 120,000-143,999 forint tax bracket. According to the appropriate tax bracket table:

	Earnings	Tax
Thousands	139	35,550
Hundreds	8	360
Tens-units	79	36
		<hr/> 35,946

After a little practice the tax can be computed in about 15 seconds. It would be useful to copy the tables onto a card for lasting use. It speeds up the computation if we supply the lines of figures with sliding "windows." Even lacking these we get swift results if, for example, a colleague dictates the earnings in the appropriate parts (in the second example thus: 139--8--79) and another looks at the table and "enters" and then sums the three partial taxes.

#### I. Tax bracket 0-23,999 forints

Thousands		Hundreds		Tens-units	
Income	Tax	Income	Tax	Income	Tax
0	0	10	600	00-09	0
1	50	11	650	10-19	1
2	100	12	700	20-29	2
3	150	13	750	30-39	3
4	200	14	800	40-49	4
5	250	15	850	50-59	5
6	300	16	900		
7	350	17	950		
8	400	18	1000		
9	450	19	1050		
10	500	20	1100		
11	550	21	1150		

#### II. Tax bracket 24,000-35,999 forints

Thousands		Hundreds		Tens-units	
Income	Tax	Income	Tax	Income	Tax
24	1700	0	0	00-01	0
25	1750	1	10	02-11	1
26	1800	2	20	12-21	2
27	1850	3	30	22-31	3
28	1900	4	40	32-41	4
29	1950	5	50	42-51	5
30	2000	6	60	52-61	6
31	2050	7	70	62-71	7
32	2100	8	80	72-81	8
33	2150	9	90	82-91	9
34	2200			92-99	10
35	2300				

#### III. Tax bracket 36,000-47,999 forints

Thousands		Hundreds		Tens-units	
Income	Tax	Income	Tax	Income	Tax
36	2400	0	0	00-01	0
37	2450	1	15	02-09	1
38	2500	2	30	10-19	2
39	2550	3	45	20-29	3
40	2600	4	60	30-39	4
41	2650	5	75	40-49	5
42	2700	6	90	50-59	6
43	2750	7	105	60-69	7
44	2800	8	120	70-79	8
45	2850	9	135	80-89	9
46	2900			90-99	10
47	2950				

#### IV. Tax bracket 48,000-59,999 forints

Thousands		Hundreds		Tens-units	
Income	Tax	Income	Tax	Income	Tax
48	3200	0	0	00-01	0
49	3250	1	20	02-09	1
50	3300	2	40	10-19	2
51	3350	3	60	20-29	3
52	3400	4	80	30-39	4
53	3450	5	100	40-49	5
54	3500	6	120	50-59	6
55	3550	7	140	60-69	7
56	3600	8	160	70-79	8
57	3650	9	180	80-89	9
58	3700			90-99	10
59	3750				

V. Tax bracket 60,000-71,999 forints

Thousands		Hundreds		Tens-units			
Income	Tax	Income	Tax	Income	Tax	Income	Tax
60	6000	0	0	60-61	0	30-33	13
61	6850	1	25	62-65	1	34-37	14
62	7100	2	50	66-69	2	38-41	15
63	7350	3	75	70-73	3	42-45	16
64	7600	4	100	74-77	4	46-49	17
65	7850	5	125	78-81	5	50-53	18
66	8100	6	150	82-85	6	54-57	19
67	8350	7	175	86-89	7	58-61	20
68	8600	8	200	90-93	8	62-65	21
69	8850	9	225	94-97	9	66-69	22
70	9100			98-01	10	70-73	23
71	9350			02-05	11	74-77	24
				06-09	12	78-81	25

VI. Tax bracket 72,000 - 83,999 forints

Thousands		Hundreds		Tens-units			
Income	Tax	Income	Tax	Income	Tax	Income	Tax
72	9 600	0	0	80-81	0	32-34	16
73	9 900	1	30	82-84	1	35-38	17
74	10 200	2	60	85-88	2	39-41	18
75	10 500	3	90	89-92	3	42-45	19
76	10 800	4	120	93-96	4	46-49	20
77	11 100	5	150	97-00	5	50-53	21
78	11 400	6	180			54-57	22
79	11 700	7	210			58-61	23
80	12 000	8	240			62-65	24
81	12 300	9	270			66-69	25
82	12 600					70-73	26
83	12 900					74-77	27
						78-81	28
						82-85	29
						86-89	30

VII. Tax bracket 84,000-95,999 forints

Thousands		Hundreds		Tens-units			
Income	Tax	Income	Tax	Income	Tax	Income	Tax
84	13 200	0	0	90-91	0	33-35	19
85	13 500	1	30	92-94	1	36-38	20
86	13 800	2	60	95-97	2	39-41	21
87	14 100	3	90	98-99	3	42-44	22
88	14 400	4	120	00-02	4	45-47	23
89	14 700	5	150	03-05	5	48-49	24
90	15 000	6	180	06-08	6	50-52	25
91	15 300	7	210	09-11	7	53-55	26
92	15 600	8	240	12-14	8	56-58	27
93	15 900	9	270	15-17	9	59-61	28
94	16 200			18-19	10	62-64	29
95	16 500			20-22	11	65-67	30
				23-25	12	68-69	31
				26-28	13	70-71	32
				29-31	14	72-73	33
				32-34	15	74-75	34
				35-37	16	76-78	35
				38-40	17		
				41-43	18		

VIII. Tax bracket 96,000-119,999 forints

Thousands		Hundreds		Tens-units			
Income	Tax	Income	Tax	Income	Tax	Income	Tax
96	17 400	0	0	90-91	0	32-33	21
97	17 800	1	40	92-93	1	34-36	22
98	18 200	2	80	94-96	2	37-38	23
99	18 600	3	120	97-98	3	39-41	24
100	19 000	4	160	99-01	4	42-43	25
101	19 400	5	200	02-03	5	44-46	26
102	19 800	6	240	04-06	6	47-48	27
103	20 200	7	280	07-08	7	49-51	28
104	20 600	8	320	09-11	8	52-53	29
105	21 000	9	360	12-13	9	54-56	30
106	21 400			14-16	10	57-58	31
107	21 800			17-18	11	59-61	32
108	22 200			19-21	12	62-63	33
109	22 600			22-23	13	64-66	34
110	23 000			24-26	14	67-68	35
111	23 400			27-28	15	69-71	36
112	23 800			29-31	16	72-73	37
113	24 200			32-33	17	74-76	38
114	24 600			34-36	18	77-78	39
115	25 000			37-38	19	79	40
116	25 400			39-41	20		
117	25 800						
118	26 200						
119	26 600						

# IX. Tax bracket 120,000-143,999 forints

Thousands		Hundreds		Tens-units			
Income	Tax	Income	Tax	Income	Tax	Income	Tax
120	27 000	0	0	00-01	0	51-54	24
121	27 010	1	45	02-03	1	55-56	25
122	27 020	2	90	04-05	2	57-58	26
123	27 030	3	135	06-07	3	59-61	27
124	27 040	4	180	08-09	4	62-63	28
125	27 050	5	225	10-12	5	64-65	29
126	27 060	6	270	13-14	6	66-67	30
127	27 070	7	315	15-16	7	68-69	31
128	27 080	8	360	17-18	8	70-71	32
129	27 090	9	405	19-21	9	73-74	33
130	27 100			22-23	10	75-76	34
131	27 110			24-25	11	77-78	35
132	27 120			26-27	12	79-81	36
133	27 130			28-29	13	82-83	37
134	27 140			30-32	14	84-85	38
135	27 150			33-34	15	86-87	39
136	27 160			35-36	16	88-89	40
137	27 170			37-38	17	90-92	41
138	27 180			39-41	18	93-94	42
139	27 190			42-43	19	95-96	43
140	27 200			44-45	20	97-98	44
141	27 210			46-47	21	99	45
142	27 220			48-49	22		
143	27 230			50-52	23		

# X. Tax bracket 144,000-199,999 forints

Thousands		Hundreds		Tens-units			
Income	Tax	Income	Tax	Income	Tax	Income	Tax
144	37 400	144	51 800	0	0	51-52	26
145	37 410	145	51 810	1	30	53-54	27
146	37 420	146	51 820	2	60	55-56	28
147	37 430	147	51 830	3	90	57-58	29
148	37 440	148	51 840	4	120	59-61	30
149	37 450	149	51 850	5	150	61-62	31
150	37 460	150	51 860	6	180	63-64	32
151	37 470	151	51 870	7	210	65-66	33
152	37 480	152	51 880	8	240	67-68	34
153	37 490	153	51 890	9	270	69-70	35
154	37 500	154	51 900	10	300	71-72	36
155	37 510	155	51 910	11	330	73-74	37
156	37 520	156	51 920	12	360	75-76	38
157	37 530	157	51 930	13	390	77-78	39
158	37 540	158	51 940	14	420	79-80	40
159	37 550	159	51 950	15	450	81-82	41
160	37 560	160	51 960	16	480	83-84	42
161	37 570	161	51 970	17	510	85-86	43
162	37 580	162	51 980	18	540	87-88	44
163	37 590	163	51 990	19	570	89-90	45
164	37 600	164	52 000	20	600	91-92	46
165	37 610	165	52 010	21	630	93-94	47
166	37 620	166	52 020	22	660	95-96	48
167	37 630	167	52 030	23	690	97-98	49
168	37 640	168	52 040	24	720	99	50
169	37 650	169	52 050	25	750		
170	37 660	170	52 060	26	780		
171	37 670	171	52 070	27	810		

8984

CSO: 2500/341

HUNGARY

REFORM POLICY, ECONOMIC POLICY COMPLEXITY

Budapest VALOSAG in Hungarian No 3, Mar 85 pp 87-93

[Article by Tamas Bauer, senior staff member of the Hungarian Academy of Sciences Institute of Economics: "Reform Policy in the Complexity of Economic Policy"]

[Text] For Hungarian economic policy, which is seeking a way out from the recession that developed by the beginning of the 1980's and is not yet over, the key issue is how to proceed with the economic reform. This is explained by the fact that the economy cannot count on additional resources other than a reduction of the losses arising in the economy's operation. And it is obvious even to the superficial viewer that such avoidable losses do exist.

Therefore everyone agrees that the main task is to proceed further with the economic reform. And since the domestic and foreign experience of the 1970's has demonstrated that recentralization is not the solution, there appears to be agreement also on the desirability of continuing the reform in the direction begun in 1968.

Within this overall agreement, however, there are basically two standpoints or interpretations on how to proceed with the economic reform. According to the first approach, the essence of the 1968 economic reform is the substitution of indirect methods of managing the national economy, by means of financial regulators, for the direct methods of centrally managing the command-directed economy, but without any curtailment of the range of centrally managed economic processes. The other approach regards as the basic feature of the 1968 economic reform, and one that should be continued even today, the replacement of the economy's central management that wants to control all economic processes by direct and indirect means, with an economic mechanism that includes also a self-regulating market in addition to the national economic planning and regulation of the principal processes.

The arguments against this latter approach usually run two ways. According to one line of reasoning, it is a mistake to strive to develop an economic mechanism of this type because it agrees neither with the principles of socialism, nor with the economic conditions that have become typical of both the West and the East in the last decades of the 20th century. The other line of reasoning recognizes the justification of the efforts to continue the 1968 economic reform in this direction but holds that Hungary permanently lacks the conditions

for the functioning of such a mechanism. I have debated the former line of reasoning on other occasions. Therefore I will not dwell on it here, but will address the latter standpoint instead. Its advocates identify the four major obstacles as follows:

1. Our economy is monopolized to a large extent, and the enterprise structure that we inherited from the system of managing a command-directed economy makes the feasibility of real market competition questionable.
2. The nature and mechanism of our external economic relations are in conflict with the development of market automatisms based on competition. In our relations with other CEMA countries, we cannot expect within the foreseeable future a changeover from bilateral trade viewed in physical units, to a mechanism that gives preference to value categories and relations between enterprises. In our trade with countries outside CEMA, the balance-of-trade problems that promise to be permanent, and our absence from the economic integration in Western Europe make it unlikely that the present mutual protectionism will be dismantled to permit the development of import competition.
3. Our economy has not yet ceased to be a shortage economy, and the shortages have even increased during the past year or two, in conjunction with our external economic problems. Until the shortages cease in our economy, it would be in vain to reduce the degree of its monopolization and to attempt to relax the rigidity of our external economic relations. So long as there remains an extensive sellers' market, the competitive mechanism cannot function.
4. A political system founded on the principles of a one-party system and democratic centralism links into a political hierarchy every element of the system of political institutions, and it rules out the construction of autonomous elements outside this hierarchy. Therefore such a political system is incompatible with the abolition of hierarchic dependence in the economy, with the mutual autonomy of the enterprises and public administration.

These objections seem to be irrefutable. If we strictly interpret that there must be a large number of economic subjects in every partial market for the competitive mechanism to unfold, and at the same time accept as given our economy's inherited enterprise structure, then we have to forgo real market competition. If we strictly interpret that market competition, or already the operation of a competitive price system, requires the dismantling of extreme protectionism, and at the same time take into consideration the nature of our external economic relations, then we have to forgo the economic mechanism's desirable modification. If we interpret strictly that the ensuring of "moderate oversupply" in the economy is a prerequisite for the competitive mechanism, but do not see any hope of our being able to satisfy this requirement under our present economic situation or within the foreseeable planning horizon, then we must again feel discouraged. And finally, if we interpret strictly that economic pluralism cannot be imagined without political pluralism, and at the same time regard as immutable the forms of exercising political power that have evolved in the countries of Eastern Europe with one-party systems (actually these forms emerged at the time of the consolidation of power and have been inherited from that period), then we must again forgo the economic mechanism's necessary modification.

In the following I will differentiate my treatment of the first three objections, which are related to economic conditions, and of the fourth one, which cites the mutual interdependence of the economic mechanism and of the political system. In conjunction with the first three objectives I would like to demonstrate that in Hungarian economic policy, parallel with the reform program but independently of it, the demand has already been formulated for changes that will resolve the obstacles in question. If these changes materialize, then we can expect the economic conditions for the operation of a self-regulating market to develop, although not free of problems. Concerning the fourth objection, I would like to call attention to an available opportunity for perfecting the political system, an opportunity that is compatible with what I regard as a desirable variant of the economic reform's continuation, even if the basic framework is retained.

### Enterprise Organization and Market Competition

Do we really have to regard as given the enterprise structure that our economy has inherited? Already the events of the past five years indicate that we do not, because the creation of the new forms of small business and the appearance of hundreds of new businesses are the most important development in the Hungarian economy since the new economic mechanism's introduction in 1968.

But how far is it advisable to proceed in this direction? Can these changes assume a level such that the first of the four contradictions will be resolved?

A "commonsense" standpoint has now spread that no longer denies the role of small enterprises, including the new forms of entrepreneurship; but the role it assigns them, although important, will remain only a secondary and peripheral one in the long run, in comparison with the large state enterprises. Is this warranted?

Let us start out from the proper assumption that certain types of activity can be conducted more efficiently by large enterprises; and other types, by small enterprises. In the first approximation, we have to agree with this view, i.e., that primacy must be given not to the small business as such and not to the large enterprise as such, but to internationally competitive activity, whether by a small enterprise or a large one. Here, however, we must take into account certain consequences of the Hungarian economy's external economic position.

It seems that the availability of skilled labor below the usual cost, the established and skillful economic relations with both East and West simultaneously, the geographic proximity of Western Europe and Eastern Europe, and a more flexible system of economic management than in similarly situated competing countries (small CEMA countries) offer--or could offer--a country in Hungary's situation comparative advantages in its export markets. Probably these comparative advantages can best be realized specifically in the activities that small and medium enterprises can conduct.

These days the progressive businesses in the developed countries include giant corporations as well as companies employing a few tens or hundreds of people. But while the progressive large corporations are necessarily international

corporations, the small companies may be national ones. The competitive large corporations in small countries likewise are either local units of multinational corporations or are themselves international corporations with subsidiaries throughout the world. But this is not feasible under our system of external economic relations: the CEMA mechanism excludes in principle the establishment of international enterprises, while in relation to the West this is hampered by the absence of convertibility, the monopoly of foreign exchange, and many other factors.

Under the present conditions, therefore, not much can be done to remedy the shortcoming of our enterprise structure that we do not have any "real large enterprises." A large enterprise with a modern organizational structure simply "does not fit" into the Hungarian economy that has not been integrated into the world economy.

The situation is different in the case of small enterprises. In principle there is nothing to prevent the appearance and mushrooming of modern, internationally competitive, small and medium Hungarian enterprises.

Therefore I think that economic policy should assign the small enterprises a fundamental (but not dominant, of course) rather than a peripheral role in the long-range development of the enterprise structure. It is not warranted to limit the activity of small enterprises--including the industrial cooperatives and the ancillary production branches of the agricultural cooperatives--to collaboration with large enterprises and to supplying the consumer market, when much can be expected of them also in the production and export of the most modern high-technology industries, especially if the efficiency of export again becomes the main criterion for the export volume. The right to export independently, for example, ought to be ensured for small enterprises in the same way as for large ones. (They would not be obliged to exercise this right and could entrust their export to a foreign-trade enterprise; but let them be responsible for the realization of their products in the same way as the large enterprises.)

Have I fallen from one extreme into another? Perhaps, but this is not a counterargument. One type of extreme, the orientation on large enterprises, had its justification under a given policy of industrial development and a given system of economic management. (It is an entirely different question whether this policy of industrial development and system of economic management were adequate in their time; and if they were, for what? In any event, this extreme, too, was not solely the product of faulty judgment.) On the other hand, there are arguments to support that the present economic situation, the resulting tasks of economic policy, and the apparently sensible direction of the economic mechanism's development now warrant an orientation on small enterprises, which is again one-sided, you might say.

It is customary to advance also a political argument in favor of the large enterprises' primacy: the political significance of the workers at large plants. In the given case, however, I simply fail to understand why this argument is raised. Admittedly, the working-class movement has always sought and found its mass base among the workers of large plants, because their organization is most likely to alienate the worker from his employer, and to develop the workers'

solidarity. It is no accident that in recent decades the working-class movements also in Eastern Europe emerged from the working masses of large-scale plants: here we find the blue-collar workers more ready to oppose. The workers at small plants live in a more paternalistic environment and are more ready to identify with the objectives of their enterprise.

Therefore it is understandable that anyone wishing to overthrow a regime will send his agitators to the large plants. And I also understand that a regime fearing for its stability has to favor primarily the workers of large plants. But if the regime wants to develop a consensus and form a constructive cooperation--a social partnership, if you wish--with the population, then it should appeal to the small and medium plants, simply for social-policy considerations if nothing else! Naturally, where the large plants are indispensable and have evolved through natural development, there they must be retained. But there are no political arguments in favor of forcing the large-enterprise form and what lies behind it: the economic activities requiring large enterprises.

Of course, the ratios of large and small organizations cannot be changed overnight. The changing of their ratios I regard as an objective that will have to be achieved over a longer period of time. Considerable progress in this direction has already been made in recent years. But I think it is important to point out that we are still far from the desirable situation, and that we must proceed consistently, step by step, in the set direction.

And if this happens, then also the domestic conditions for developing a competitive economy will gradually improve.

#### Reform and External Economic Policy

Much reproach has been addressed to me because of my conclusions regarding external economic policy, in an article that appeared in MOZGO VILAG. It would certainly be naive to seek salvation solely in economic relations with the capitalist countries, as this was done at one time in Romania and subsequently in Poland in the 1970's. Within the set of requirements for the 1980's, we must nonetheless view the role of the two principal provenances and destinations in our external economic relations differently from how the economic policies of the 1950's or 1960's perceived it.

There has been no change in the advantages we derive from exchanging finished products for raw materials with the Soviet Union, where and as long as such exchange is feasible. There has been no change also in our ability to exchange industrial goods advantageously with the small CEMA countries that are close to us geographically, in their level of economic development, technological sophistication, and the quality their consumers demand. The fact that Hungary has been able to become a permanent exporter of agricultural products, and that the Soviet Union and several other CEMA countries are permanent importers of food, has even improved the opportunities for the expansion of CEMA trade.

At the same time, however, many factors are limiting the expansion of CEMA trade, and are even constricting it. I will mention only the two most important ones. From our point of view, one is in part an externally given factor: the opportunities and advantages of exchanging machinery for raw materials

with the Soviet Union have been exhausted to a large extent on both sides. Because, among other things, the offsets are more limited than Hungary could find useful for its export of industrial goods, the volume of which is substantial due to the Soviet Union's being a large and reliable market for decades.

The other factor concerns the CEMA mechanism. The key issue of our current economic development is the expansion of manufacturing output that fits into the international division of labor according to the principle of comparative advantages. Such manufacturing output is import-intensive and is itself export-oriented, attaining its high export earnings by flexibly supplying the market demand. But the mechanism of CEMA cooperation rules out this type of manufacturing relations on both the import and the export side. And there are no realistic prospects of a change in this respect during the next 5 to 10 years. Thus if under these conditions we have to reckon with the fact that (1) the large programs in the development of manufacturing will continue to serve basically and primarily the expansion of export to CEMA countries (or CEMA-level import substitution), and that (2) we will strive to supply as much as possible of manufacturing's demand for semifinished products, parts and subassemblies from CEMA countries (and not only raw materials, for which this problem is not so pronounced), then in developing manufacturing's technology and marketing we have to forgo the additional sources of growth that participation in (integration into) the international division of labor on the principle of comparative advantages offers.

In our external economic relations, therefore, we will hardly be able to avoid a decline in the role of trade based on quotas determined by intergovernmental agreements and denominated in transferable rubles, and an increase in the role of trade based on commercial principles and denominated in a convertible currency, or in a currency that de facto can be exchanged for convertible currency. One way of achieving this would be to place on a commercial basis the economic relations with CEMA countries in general, or all or a part of the turnover with individual CEMA countries ready to do so. This would be highly desirable because our economic relations could develop efficiently with those of our partners with whom such relations are the most obvious, for both geographic and historical reasons. But if this desirable alternative is not realized and the mechanism of CEMA relations is not modified (which we must take into account as a realistic possibility), then we must seek outside our CEMA relations the possibilities for participating in the international division of labor in a manner that is modern in both content and form. This presupposes that we seek the opportunities for a closer link with the Western European integration that now embraces all of Europe outside CEMA. We would then have a chance to avoid a gap in the development of our technology and marketing. A sort of "de facto association" would mean a set of measures such as a comprehensive trade agreement with the Common Market, further progress toward making the forint convertible, and allowing wholly foreign-owned enterprises or enterprises in which foreigners have a majority interest.

All this cannot undermine our relations with CEMA because even today CEMA is not a multilateral economic integration; instead, it comprises bilateral economic relations within a system of multilateral political relations. Intensification of our economic relations with the West does not prevent our participation in CEMA or even the increased utilization of the opportunities that CEMA

offers. Quite the contrary! If we intensify manufacturing's relations with the West and this has a beneficial effect on the technological level and competitiveness of our manufacturing, then--among other things--we will become a desirable partner in CEMA trade for whose supply of upgraded industrial goods the other CEMA partners will be willing to give "hard" goods in exchange, and perhaps even the exchange of machinery for materials could be revived. Thus, instead of a one-sided Western orientation, what I have in mind is that the Hungarian economy's advantageous position to act as go-between in West-East technology transfer (because of the reformed economic mechanism, its prospects are better than those of Czechoslovakia; and because of its stability, better than those of Poland) can be utilized in the future more effectively than up to now only if the outlined perfection of our external economic policy and economic mechanism is able to compensate, e.g. for our drawback in comparison with the German Democratic Republic's inside track in relations with the Federal Republic of Germany.

But from all this it also follows that this direction of our external economic policy will bring us closer to the desirable situation where the contradiction dissolves between the mechanism of our external economic relations and the domestic economic mechanism.

#### Equilibrium and Reform

A few years ago, the interdependence of the economic reform's continuation on the one hand, and elimination of the shortage economy's remnants and establishment of a buyers' market on the other, was practically a truism requiring no further substantiation. There did not seem to be anyone to even argue with, because nobody was advocating a sellers' market in Hungary.

This situation has changed in recent years. In her article that appeared in VALOSAG (No 5, 1985), Andrea Szego has been the first one in decades to formulate as a claimed theoretical generalization the view that the socialist economy is necessarily a shortage economy. This line of reasoning seems to have lost sight of the experience that a shortage economy, the compulsory substitutions that become typical in the production processes, the queues, the long lead times, etc. detract from the quality of the products, the efficiency of production and the competitiveness of export to such an extent that the entire system's competitiveness in a broad sense becomes questionable. Actually for this reason we cannot regard a good supply of materials and goods as something we can afford in good years but must do without in lean ones. On the basis of what an entire series of East European economists uncovered in recent decades, and what Janos Kornai has also generalized theoretically, we may establish that the successful functioning of the economy is a prerequisite for good supply.

All this is not yet a truism by far, and there are economic policymakers who believe that import curbs, and the disruptions in supply caused by necessarily approximate central balances, can be tolerated with impunity, without social and economic consequences. Moreover, the fact that the harmful effect of such disruptions is reflected only with a certain delay, and not immediately, in the aggregates that can be monitored also centrally serves to reinforce a certain false illusion. Namely the illusion that although the unavoidable restrictions have caused temporary problems, domestic products have been

substituted for imports (in the case of real demand), and production is continuing. This false illusion can lead to making a virtue of necessity. The mechanism of restrictions thus assumes a life of its own, and import substitution becomes a main criterion also in investment decisions, after the decisions in production and distribution. And then the process of declining efficiency can hardly be stopped.

It is not yet too late to realize that what we must regard as an economic policy objective equal in importance to restoring external economic equilibrium is not so much the avoidance of a decline in real wages and consumption as indicators of the living standard, but the restoration of domestic equilibrium. Several statements by our leading politicians indicate that they understand this, yet the propensity to make concessions on this seems to be becoming permanent in day-to-day decision-making.

Thus there are also other weighty reasons, besides the requirement of coordination with the economic mechanism's development, in support of the need to proceed from a shortage economy toward a buyers' market.

#### Interrelations of Economic, Political Reform

If we take our reform concepts seriously, or even the proposed changes contained in the materials prepared by state agencies, we cannot avoid the following contradiction: On the one hand we would like independent and accountable enterprise management. But on the other hand we would retain the territorial party organs' right to request reports from enterprise managers on their entire business activity, to disagree with them on any economic question, and on this basis "to withhold their confidence" in these managers. In this case the accountability and independence of enterprise managers would rest on a very shaky foundation.

Therefore it appears that even for a somewhat consistent implementation of the economic reform--of the 1966 reform concept--we have to guarantee the enterprise managers' independence and accountability. Here it would be important to make unambiguously clear that the party organs must not restrict enterprise managers in exercising their economic authority, not even in cases when the party organs regard their interference as justified. What should be emphasized in principle and asserted in practice is that the party organs exercise political authority over enterprise managers but do not have the authority to supervise and control the enterprise managers' economic activity. Now that we have finally abandoned the principle that the central state agencies are always right ex officio on every question, we should abandon it in relation to the --central, territorial, and local--party organs as well.

The desirable change can be approached in several ways. Unambiguous declarations by the leading political bodies, and a clear standpoint by the party press could be of considerable help. A rearrangement of the party organs' authority, under which not the higher but the same level (the party committee and party leadership of the institution, enterprise or shop) exercises political authority over enterprise managers, would also help.

As evident from what has been said above, what I regard as a prerequisite for the economic reform's continuation is not a spectacular reform of the political system. I believe that slow, step-by-step progress is possible in the political sphere. But here again the change must not be a seeming one. We need a meaningful and perceptible change in the political sphere as well.

Obviously, the strengthening of democracy in economic management by the state, and the reinforcement of its public control are important areas of this change. The enterprises' independence of public administration can and must be ensured also by increasing the legality of economic regulation.

Regardless of how perfectly the new system of economic regulation is set up, and how successful the development of the new forms of enterprise management is, I think that even in the future we cannot expect the state agencies and the enterprises to observe the rules of their new relationship solely through self-discipline. We cannot dispense with developing two systems of guaranties.

On the one hand--as Tamas Sarkozy, among others, has repeatedly pointed out--we must provide the enterprises legal protection from the state. Just as the establishment of the administrative court has enabled citizens to request a judicial review of the rulings of public-administration agencies, the enterprises too must be granted the right to appeal from public-administration decisions, to the administrative court or to economic courts. And if the already existing judicial protection of small businesses is to offer them real security based on law, the courts must be independent of public administration and of the party apparatus as well.

On the other hand--as this has been pointed out, albeit too generally, also in numerous recent documents--the openness and democratic social control of economic management by the state offer guaranties against any comprehensive intertwining of the interests of the state apparatus and the enterprises. I am confident that all this fits in with what the statements about the desirable development of the system of political institutions convey in recent speeches and documents.

In summary: There are changes that appear unavoidable in the economy even independently of the decision on how to continue the reform, and also changes that appear feasible and desirable in the political mechanism. If these changes materialize, they would resolve the obstacles that usually serve as the basis of questioning whether the reform's continuation on the principle of a self-regulating market is realistic.

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CSO: 8125/1318

HUNGARY

# LONG TERM LOOK AT BANKING SYSTEM

Budapest GAZDASAG in Hungarian No 4, 1984 pp 46-66

[Article by economist Jozsef Sari]

[Text] The question of modernizing the banking system arose already in 1968, at the time of the economic reform's elaboration, and an extensive debate was held on the banking system's transformation. In the end a standpoint was adopted in favor of a one-level banking system. The main characteristic of a one-level banking system is that a single bank performs the functions of the bank of issue and of the credit bank as well. It represents the general interests of the entire national economy, does not operate on business principles, has an extensive network, and is vested with monopolies.

Some of the concepts that have been made public in recent years--in conjunction with developing a mechanism for the freer flow of capital--see the future role and place of the banks as competing financial institutions in a real credit market that will develop parallel with new enterprise forms. But this requires a two-level (or multilevel) banking system. A multilevel banking system would mean, on the one hand, that there would be a National Bank performing the functions of the bank of issue; and on the other hand, that independent credit (or commercial) banks would be founded to operate on business principles.

A more modest version of the two-level banking system is the one where the authors of the proposals regard as adequate a simple separation of the bank-of-issue functions from the credit-bank functions within the present organizational structure [1]. This would be followed at a later date by the founding of independent banks, when the financial institutions split off the bank of issue are organized by branches of the economy or on a territorial basis.

Historically the two-level banking system evolved in the capitalist countries, where the direct credit financing of businesses is the task of the commercial banks, and not of the bank of issue. But there, too, only the bank of issue may issue currency. And it influences, through the available--mostly indirect, and to a lesser extent direct--regulatory tools the commercial banks' lending, and the related creation of bank money. The banks of issue evolved from the commercial banks when the state granted some or one of them a monopoly to issue currency. Usually this was the commercial bank that had the closest financial relations with the state even before becoming the bank of issue.

Thus the functions of the "bankers' bank" and "state's bank" merged fairly soon within the bank of issue.

In the model of economic management that is now taking shape it is essential, in my opinion, to expand the armory of tools for fiscal and monetary control, and to ensure thereby closer harmony between the national economic plan and monetary regulation, in the interest of an ever-better balance of the economy. Under the present conditions, as I have explained in an earlier issue of this journal [2], it must be clearly understood that the banking system is not an aim but a means, and hence a consequence. The kind of banking system that is needed in a given stage of development depends on what kind of monetary mechanism is or will be feasible; and within this, on what will be the set of requirements that monetary policy must meet. In the following, therefore, I will first describe a feasible modern version of the one-level banking system, and then dwell in detail on the structure of a multilevel banking system that would include, besides the new commercial banks, also the financial institutions that have evolved to date in the socialist economy.

#### A. Short-Term Program

Retaining the basic elements of the present banking system, we can accelerate the economy's structural change and shorten the period of transition to its intensive stage, by developing and consistently applying the tools and methods of indirect regulation that can effectively contribute toward strengthening the Hungarian National Bank's bank-of-issue functions, and toward the closer control of its credit-bank functions, within its integrated organization [3]. Under our present conditions, the Hungarian National Bank is the bank of the state, state agencies, financial institutions, and enterprise-type economic organizations. In relation to the state and the financial institutions, it functions primarily as the bank of issue. And it performs its financial and credit operations with the enterprise-type economic organizations as the socialist state's central bank.

It follows from the bank-of-issue functions that the main area of regulation is control of the money supply, in accordance with the needs and possibilities of the national economy and conditions of equilibrium. Continuous control of the tasks' fulfillment is possible through the monitoring and accounting of the set tasks, and the evaluation and analysis of the qualitative conditions of fulfillment, for the entire national economy and in a breakdown by its principal sectors. These tasks can be performed expediently as bank-of-issue functions, in a triple division of labor. Namely:

- In conjunction with national economic planning;
- Within the Hungarian National Bank, by regulating and controlling the operations of the credit main administrations, respectively of the credit main departments; and
- In relation to the entire credit system, by setting the conditions of the partner financial institutions' credit and monetary relations.

## 1. Tasks of the Bank of Issue in Conjunction With National Economic Planning

As one of the agencies of national economic planning, the Hungarian National Bank performs well the tasks stemming from its bank-of-issue functions when it does the following:

Prepares plan variants that are based on the initial data of the national economic plans but are drafted from a monetary viewpoint. Such projections can be useful in shaping monetary (bank-financing) policy, and in formulating the monetary conditions of economic equilibrium. Knowing the national product indicators contained in the plan, the domestic and foreign expenditures of national income, and especially the capital stock formation, savings, and the balances of trade and payments, the bank examines and determines the money supply that is warranted for the economy's transactions, and also its composition in terms of mobility.

Regularly prepares a forecast of the volume of credit outstanding, foreign-exchange reserves and currency circulation, which is essentially a short-term forecast of how the national economic indicators will develop. There appears to be a demand also for more forecasts of how the enterprises' behavior and operations will develop, of the central measures' foreseeable effects and the enterprises' response to them.

Forecasting by the bank is basically macroeconomic, and its primary purpose is to monitor fulfillment of the annual plans and realization of the economic policy objectives. The information that the bank obtains in the course of financing capital stock formation and business transactions, supplemented by information from surveys of the international money markets, enables the bank's forecasts to indicate the foreseeable direction of development, and to identify in due time the economic processes that depart from the plan or from equilibrium. In the future, therefore, specifically these features of the forecasts should be reinforced, so that credit policy may become even more selective, and interest-rate and exchange-rate policy more active.

## 2. Bank-of-Issue Functions Within the Hungarian National Bank

Reinforcement of the bank-of-issue functions within the Hungarian National Bank's organization means increased control and intervention in the operations of the credit bank that up to now has functioned essentially as the bank of issue. The following should be done to this end.

A study should be made of how the supply and demand of specific-purpose and branch credits could be balanced more flexibly in our present practice of providing credit financing for fixed capital, and how continuous monitoring could enable us to intervene in due course to prevent disbursements of credit that depart from the specific purpose or exceed the possibilities. In the competition among applicants for development loans, therefore, the bank-of-issue division would examine also in advance the substantiation of the proposals in the applications. Effective intervention in this area (more or less in the same way that the capitalist central banks rediscount commercial papers) will be possible when an optimum develops that is based on the interrelations among the

proportion of credit financing, the amount of resources available from the enterprise's own development fund, the term of the credit, the interest rate, and the forint costs of earning a unit of hard currency, and on the extent of the enterprise's indebtedness and its credit rating.

The bank-of-issue division is able to set the warranted volume of working-capital credit as a function of the circulation and production processes specified in the national economic or branch plans. On the basis of their nature (or type), working-capital credits should be divided into three groups: short-term ad hoc working-capital credit, credit for a development-related increase of working capital, and credit for a nondevelopment-related increase of working capital. Liquidity credits of the bridging type could be handled entirely separately of these three groups. The demand for short-term working-capital credit arises in the interest of future business, and therefore the bank of issue could plan and control its volume in accordance with the expected fluctuations in sales and enterprise resources, and the seasonal variations.

The demand for credit to increase working capital ought to be determined already in the course of planning on the basis of the circulation velocity of the funds lent, at its progressively improving rate.

In the future the Hungarian National Bank should pursue a more flexible policy on interest rates than at present, taking into consideration the profitability of enterprise operations and the costs of the loanable funds. It is advisable to start out here from the principle that interest is payment for the use of funds and in this sense is a concept similar to price. Therefore an equilibrium interest rate is warranted that is typical, generally applicable and definitive. Thus primarily the average interest rate of the loans obtained abroad can be the equilibrium interest rate. At the same time, the interest rates on the enterprises' time deposits and the population's savings deposits should be treated preferentially. Here the principle of a positive real interest rate should apply to deposits committed for at least 4 or 5 years. The enterprise-type economic organizations' average rate of return on capital could come into consideration as the upper limit of the interest rate on credit.

The bank of issue monitors continuously the state and growth of the national economy, the actual and foreseeable development of the national economy's principal indicators, and the objectives and expectations formulated in the national economic plans. On the basis of analyzing and evaluating these data, the bank of issue sets the desirable level of the exchange rates. In this area it investigates how the national economy's entire system of regulation and its more important elements are functioning, their role and influence in the realization of the tasks to be fulfilled, and especially the price system's development in conjunction with the changes in the currency's value. The bank of issue gathers information on how the exchange rates of the more important foreign currencies and the terms of trade are developing, and on the interest rates in the international financial and money markets; this information influences the forint exchange rates of the individual countries' currencies.

### 3. Principal Bank-of-Issue Tasks in Relation to Entire Credit System

In a one-level banking system, the other financial institutions besides the banks of issue, and the state are the credit system's active participants.

The Hungarian National Bank is able to act as the "state's bank" primarily in its credit relations because in this context the objective is predominantly to manage the state budget's resources, lend the planned budgetary deficit, and to keep public debt within conservative limits. The main effort of the bank of issue is to mobilize on the state's behalf the loanable funds, within the framework of providing credit financing for the enterprises. Within state financing, therefore, the direct public borrowing requirement that stems unambiguously from the state budget's deficit should be distinguished from the public borrowing requirement for the enterprises' capital stock formation, on the basis of their nongratuitous relations with the state budget.

The requirement of a flexible interest-rate policy on credits and savings deposits should be asserted in rediscounting, and also in the case of personal loans and personal savings deposits. Here the bank of issue acts as the "bankers' bank" when, with due consideration for the equilibrium interest rate, it sets the rediscount rate so that it falls between the general basic rate of interest on credit and the most typical rate of interest on deposits, ensuring thereby a positive interest margin for the bank of issue, and real interest for the depositors. This solution can simultaneously serve as an incentive for the financial institutions that directly finance the enterprises (AFB [State Development Bank], MKKB [Hungarian Foreign Trade Bank], etc.) to attract also other resources to their loanable funds.

In relation to the National Savings Bank, the Hungarian National Bank would pursue a flexible reserve-ratio policy, setting the reserve ratio to personal incomes, the propensity to save, and to the borrowing requirements of the state and enterprise sectors.

One mode of regulation by the bank of issue is to adjust to the net inflow of savings the change in the volume of personal credits outstanding, respectively in the volume of other credits. Here a degressive scale would be acceptable that determines as a function of the net inflow of savings what percentage of this net inflow the OTP [National Savings Bank] or some other financial institution may lend. Thus regulation from the credit side is another tool with which the bank of issue is able to influence lending, besides setting a reserve ratio as a percentage of total deposits. The application of the two methods could be combined.

#### B. Elements of a Multilevel Banking System

In practice a banking system spans the aggregate of the socially organized processes of production and circulation, by transacting the payments and credits. Society's economic formation at any given time, or its historically given situation and level determine the organizations within and among which this process embracing entire society takes place. The definitive nature of society's economic formation also means that the banking system's role, the content of its tasks, and its organizational structure are not immutable, but undergo continuous change; the banking system adapts also in its form to the economy's base and superstructure. Taking all this into consideration, I think it will be expedient to employ the following principle to classify the types of financial institutions and determine their places in the new organizational structure to be formed:

Proposed Banking System's Scheme

Forms of ownership, specialization		A. Public ownership		B. Group ownership	C. Foreign and joint ownership
Levels		Bank of issue			
II		General commercial (nationwide large) banks	2. Specialized financial institutions a. State Investment & Development Bank b. Securities & Capital Trading Bank c. Construction & Housing Construction Bank d. Export-Import Bank e. Foreign Trade Bank f. Settlements & Clearing Bank g. Central Corp. of Financial Institutions	a. National Center of Savings and Municipal Banks 3. National centers b. National Center of Savings and Loan Co-ops	a. Joint corporations b. Subsidiaries, branches of foreign banks
	III		a. Territorial (city) general commercial banks b. Subsidiaries, branches of general commercial banks	Territorial (city) savings & municipal banks a. Savings & loan cooperatives b. Mutual savings banks c. Small (enterprise) banking associations b. Cooperative banking associations	
Hungarian banking interests abroad		1. The Hungarian People's Republic in international monetary organizations (International Monetary Fund, World Bank, International Bank for Economic Cooperation, International Investment Bank, etc.) 2. The Hungarian National Bank's financial interests in foreign corporations (for example, in the Bank for International Settlements); its subsidiaries (CIB [Central European International Bank], and HIB [Hungarian International Bank]) and agencies (offices) 3. The Level II financial institutions' interests in foreign corporations; and their foreign subsidiaries and branches			

- The place of the banks in the national economy, by forms of ownership;
- The place of the banks within the hierarchy of financial institutions, by levels;
- The banks' scope of duties, by functions, the national economy's subdivision into branches, and the country's territorial subdivision.

In classifying the banks by forms of ownership, I assign the financial institutions to categories on the basis of how closely they are linked to socialist property relations. Accordingly, I distinguish the following:

- Financial institutions under public ownership. These include first of all the bank of issue with its special role, scope of duties, and monopolies; the general commercial banks together with all their financial interests, subsidiaries and network of branches; the specialized financial institutions and the national banking centers; furthermore the regional and city financial institutions organized on a territorial basis, their branches, and the savings and municipal banks that have evolved or are founded on territorial principles.
- Financial institutions under cooperative (or group) ownership. These include mainly the "people's banks" of local significance, the savings and loan cooperatives that the population formed in the past and will continue to form in the future, the mutual savings banks that will be formed in the future as business associations of the various types of cooperatives, and the national centers of the aforementioned financial institutions.
- Financial institutions and banks under completely foreign ownership (and hence privately owned) or under joint [foreign and Hungarian] ownership, and the subsidiaries and branches of foreign banks. In view of the financial institutions' special role in the economy and their business relations with the population, the ban on Hungarian citizens' forming private banks will continue. The principle that the state guarantees saving deposits must be retained, in part because this generates social confidence in the security of personal savings, and partially because it allows banks to participate in business ventures only to the extent that prudence and liquidity conditions permit.

The financial institutions' place within the banking system's hierarchy presupposes the existence of at least three different levels. Bearing this in mind, the characteristics of the proposed banking system are as follows:

The qualitative difference between Level II and Level III financial institutions is based on their direct, respectively indirect, relations with the bank of issue.

- Level II banks and financial institutions have direct business (credit and account) relations with the bank of issue. In the present model these are the general commercial and credit banks whose operations cover the country's entire territory; the specialized financial institutions, likewise with a national scope of tasks; furthermore, the financial institutions and banks that are entirely foreign-owned or are under joint ownership.

- Level III banks and financial institutions are linked to the bank of issue indirectly, through the Level II banks and financial institutions. In this group belong first of all the subsidiaries of the Level II financial institutions and the banking associations, the territorial (regional, city) commercial banks typical of this level, and the territorial (regional, city) savings and municipal banks. Finally, the savings and loan cooperatives, the mutual savings banks, and the business associations that Level III financial institutions, enterprises and cooperatives form to provide banking services round out Level III.
- The Hungarian banking system can and does have a "quasi" Level IV that we encounter in international monetary relations and financial interests abroad. The country's participation in the international division of labor is expanded in this manner. Specific forms of Level IV are the financial institutions' activity as intermediaries in transactions with the external economy, and their active participation in banking institutions operating abroad. In principle, the following relations are possible in this area:
  - The membership of the Hungarian People's Republic in international monetary organizations (the International Monetary Fund, and the World Bank), and within CEMA in the NCEB [International Bank for Economic Cooperation] and the NBB [International Investment Bank];
  - The foreign relations of the Hungarian National Bank (as the bank of issue). For example, it is a member of the Bank for International Settlements, and has subsidiaries and agencies abroad;
  - The financial interests of Level II Hungarian banks and financial institutions in foreign corporations, and their foreign subsidiaries and branches.

#### I. Level I: the Bank of Issue

The country's leading bank is the Hungarian National Bank, which is the socialist state's central bank and its bank of issue. In this capacity it is the "state's bank," the "bankers' bank," and the "enterprises' (cooperatives') bank." In the model of a multilevel banking system, this last activity of the bank of issue will cease; i.e., its monopolies of currency circulation and credit will be transferred gradually, but without the monopoly powers, to the general commercial banks, and to other banks, savings banks, etc. But the bank of issue will remain the state's bank and the bankers' bank.

In a multilevel banking system, the indirect regulatory role of the bank of issue will increase in the management of currency circulation, credit, and foreign exchange. In addition, the bank of issue will have to adapt the tools by which it exerts influence, to the entire arsenal of tools and methods of a noncommand-directed system of economic management and to its practice of exercising supervision and control.

The socialist state's bank of issue is under the direct supervision of the Council of Ministers' premier. This direct subordination should be retained in the future as well, because only in this way is the bank of issue able to pursue independent monetary, credit and foreign-exchange policies. In this

sense the bank of issue is one of the central agencies of economic management, with tasks primarily in the area of monetary policy. Within a multilevel socialist banking system, we can expediently define the authority of the bank of issue and the scope of its tasks partially in terms of its traditional functions--i.e., of the functions that the bank of issue performs in the capitalist countries as well--and partially by adapting to the system of economic management that evolved in the socialist countries in a given historical period.

Among the general characteristics of the bank of issue I will mention first the monopoly to issue bank notes. I am doing so because this is the exclusive right of every bank of issue, regardless of what type of government the given country has. This right is also an obligation that may be defined as guarding the necessary quantity of money that is of relatively stable value. To be able to ensure sufficient means of payment for the national economy, the bank of issue must have at its disposal an arsenal of tools with which it can flexibly regulate the money supply--the currency in circulation and the created demand deposits--expanding or constricting its volume in accordance with the economy's requirements at any given time. Thus the monetary policy of the bank of issue is an integral part of general economic policy. The traditional tools of regulation by the bank of issue may be employed mostly in its role as the "bankers' bank," but also its function as the "state's bank" must not be underestimated. In many instances it is not even possible to draw a clear distinction between the two. Under our conditions, the following seems expedient:

- In its capacity as the state's bank, the bank of issue maintains the state budget's working capital account, and the related credit and revenue accounts, and it gives the state short-term loans to temporarily offset the budgetary deficit.
- In its capacity as the bankers' bank, the bank of issue maintains the current (giro) accounts of the Level II financial institutions and temporarily replenishes their shortages of funds by rediscounting, usually their short-term loans. Credit policy may be pursued by setting absolute rediscounting limits or credit quotas, but regulation is possible also with relative indicators linked to the rate of economic growth (gross domestic product or national income). A solution is also possible under which the bank of issue sets the volume of credits that the commercial banks may provide as a certain percentage of the demand and time deposits that the financial institutions hold.

Discount policy is one of the main monetary tools with which the bank of issue is able to influence the money supply. Its effect is indirect, rippling through the Level II and III financial institutions to the economy, or more accurately to the demand for credit. Under our conditions, this tool can find expression primarily in interest-rate policy, in setting realistic interest rates, on credits and deposits.

The so-called reserve-ratio policy of the bank of issue belongs among its tools of indirect regulation, requiring the commercial and specialized banks to keep on their current (or giro) accounts with the bank of issue a specified proportion of the total net balance of the current accounts and savings deposits that they hold. The required reserve ratio may differ for demand deposits and

time deposits, and for current accounts and savings accounts. For the more efficient concentration of domestic financial resources, a solution is also imaginable under which the bank of issue or legislation orders the state and state institutions (for example, the post office, railroad, etc.) to maintain their deposits, permanently or temporarily, with the bank of issue. In this case the bank of issue handles also (all or a part of) the state institutions' financial transactions.

Interventions, so-called open-market operations, are a part of the bank of issue's money-supply policy. These financial operations are able to influence the domestic money supply in two ways: through the purchase and sale of securities (predominantly government bonds) that bear interest at a fixed rate; and through the purchase and sale of foreign exchange and foreign currency. The significance of these latter transactions goes beyond controlling the domestic money supply. Their role is prominent also in protecting the exchange rate of the domestic currency, by partially warding off the harmful international effects.

The maintenance of the country's foreign accounts receivable and payable, the central administration and management of the foreign-exchange reserves, and the maintenance and systematic, continuous ensuring of the country's liquidity require that the bank of issue actively manage foreign exchange and pursue an active exchange-rate policy. This requirement is a general one that is independent of the country's form of government and of society's economic formation. Nationwide management of foreign exchange is the inalienable right and monopoly of the socialist bank of issue. In this capacity the bank of issue performs a twofold task. On the one hand it sets the foreign-exchange regulations for the general commercial and specialized banks, and determines the manner and extent of accounting foreign-exchange receipts with the bank of issue and the use of resources for foreign payments. The bank of issue controls also the foreign-exchange transactions of the enterprises and institutions. On the other hand it sets, or presents proposals for setting, the forint exchange rates of foreign currencies. The bank of issue coordinates the entire banking system's activity and ensures the conditions that permit the economy's supply with domestic and foreign means of payment under a noncommand-directed system of economic management, and it brings monetary policy in harmony with general economic policy. To this end it coordinates and controls from a monetary viewpoint the plans' main aggregates already in the stage of drafting, analyzing and criticizing them; and then in the stage of implementation it adopts suitable measures and presents proposals for maintaining equilibrium, in accordance with the changes in the domestic and external economic environments.

To be able to perform these tasks, the bank of issue must become an information center. In other words, the financial institutions must report their activities to the bank of issue. On the basis of these reports, the bank of issue is able to check compliance with the monetary regulations; and in the case of noncompliance it can adopt appropriate measures, bearing in mind the general interests of the national economy. As the center for regulating currency circulation, lending and foreign exchange, the bank of issue implements the socialist state's monetary policy partially through mandatory regulations and partially through gentlemen's agreements.

To better perform its tasks and primarily to ensure smooth money supply, the bank of issue would be able to open branches with territorial competence in the country's large cities. It would be allowed to establish subsidiaries only exceptionally, in cases when the government entrusts it with special tasks whose expert handling warrants the establishment of subsidiaries. In agreement with present practice, the bank of issue would be able to participate in international monetary organizations (e.g. the Bank for International Settlements) in the future as well, and it could operate a bank abroad as a corporation, such as the Hungarian International Bank (HIB) in London. Mainly the better utilization of the advantages that the large money markets offer or the better representation of Hungarian interests would warrant such ventures. The Hungarian National Bank's agencies and offices abroad also serve this purpose.

## II. The Level II Banks

This level comprises the large financial institutions that maintain direct relations with the "bankers' bank"; the bank of issue provides short-term credit for them, rediscounts their commercial papers, and maintains their current (giro) and foreign-exchange accounts. We may include in this group the general commercial banks that have nationwide networks, the specialized financial institutions, and the national centers of the savings and municipal banks, respectively of the savings and loan cooperatives. Finally, we find in this level the financial institutions that are wholly foreign-owned or under joint ownership and play a significant role in the country's economy.

### 1. General Commercial Banks

The general commercial bank is the basic type of financial institutions within the proposed banking system. The operations of such a bank are nationwide or include a large number of enterprises within a given region. The general commercial bank offers a full range of banking services and its principal characteristics are as follows:

- The general commercial bank is a profit-oriented enterprise with its own balance sheet. If we assume several general commercial banks offering the same services, there is competition among them for customers, better performance and profitability. But the competition is limited, bearing in mind the bankers' traditional rules of security, liquidity and profitability.
- The commercial bank's No 1 task is to provide the best possible and most modern service for its customers, to gain their confidence, and then to maintain comprehensive, permanent and close relations with them.
- Territorially the commercial banks--with due consideration for the Level III commercial banks and for the nationwide financial institutions' network of branches as well--would be formed and established within the large cities' zones of attraction and would thus be located close to their customers. Over and above the supply of money and credit, an advantage of this territorially definable close location would be the banks' ability to provide credit information and references, on the basis of their more extensive knowledge of the economy and their domestic and foreign sources of information.

- According to my concept, the density of commercial banks would increase where the business organizations and the population demand their services. This condition modifies the concepts that presuppose--to a large extent under the influence of the already developed branch and territorial hierarchy--organization solely by branches or solely on a territorial basis. If we assume that the enterprises will be free to choose (at least at the start) the financial institution with which they wish to conduct their cash and credit transactions, then the network of nationwide and territorial commercial banks will develop in accordance with the national economy's requirements.
- The general credit bank acts as the treasurer of its customers and the manager of their accounts. In this sense it supplies its customers with cash and maintains their current accounts. As a result of maintaining the customers' current accounts, the bank collects the customers' receivables, transfers funds on their order, and carries out their other instructions regarding cash or checks and direct transfers. It acts as foreign-exchange correspondent for its customers and handles on their instructions, through the competent specialized banks or perhaps the bank of issue, the transactions relating to export or import. For its customers the general commercial bank provides short-term current-account credits, credits against merchandise shipped and discount credits, and it also supplies their intermediate-term and long-term credit needs. It supports its customers' business ventures by forming business associations and corporations, by concentrating the flow of capital, and perhaps by participating itself in the business associations.

To be able to smoothly perform the tasks outlined above, the commercial banks will need also other resources in addition to their own assets. The temporarily or permanently surplus financial resources are amassed and redistributed with the help of typical banking tools. Foremost among the so-called passive banking operations are the deposits held by the banks. By maintaining the current accounts of the enterprises and cooperatives (exceptionally also those of the state and of the local councils), the general commercial banks handle the financial resources of these organizations and hold their demand deposits and time deposits. This type of bank could accept also personal deposits so as to expand its banking operations as widely as possible. Thereby the commercial banks would be able to lend more (and create more bank money), and they would need less additional resources from the bank of issue. Here I wish to note that the state would have to guarantee personal savings deposits in the same way as at present; but the banks would be responsible for the deposits of business organizations only according to the rules of customary risk. Which means that only the types of financial institutions authorized by the state to hold personal savings deposits would be able to accept such deposits. Among these types of financial institutions I would include first of all the savings and municipal banks, the savings and loan cooperatives, and the general commercial banks, their subsidiaries and branches. The specialized banks established for a specific purpose would not be able to accept personal savings deposits that are not related to the specific purpose. The ban on accepting personal savings deposit would apply also to self-financing financial institutions formed as business associations of enterprises and cooperatives; to mutual aid associations (except the deposits of their own members); to financial institutions that are foreign-owned or under joint ownership; and to the bank of issue.

The so-called active banking operations would include, over and above the present typical banking operations, also the discounting of bills, documentary credit, acceptance credit, factoring credit, and futures. Leasing and forfeit also could play a role in intermediate- and long-term crediting. The free flow of capital would presuppose that the commercial banks deal in securities as well. Dealing in securities would involve the administration and trading of mostly fixed-interest bonds and, to a lesser extent, of stock in companies founded by socialist business organizations. Perhaps it could include also loans on securities (lombard loans).

The overriding consideration of the banks' serving their customers warrants offering a wide range of other banking services such as the safekeeping and administration of securities and valuable, the renting of safe-deposit boxes, bank guarantees of domestic and foreign obligations, bank references and advice, and assistance in market research.

The commercial banks conduct their operations with their own assets and the resources of their customers, to the extent of the ratios determined by the monetary regulations. The bank of issue may temporarily supplement the resources of the commercial banks, in accordance with the requirements of plan-conforming money and credit management. This usually means lending within the limits of the quotas set for rediscounting and other refinancing credits. In this respect the Level II general commercial banks would be linked to the system of economic planning. The net money and foreign-exchange demand of the commercial banks, together with the net demand of the multitude of their customers, appears on the accounts maintained by the bank of issue. In the final outcome these data provide guidance, reflecting the aggregate monetary situation of the national economy.

## 2. Specialized Financial Institutions

The specialized financial institutions that the government authorizes to perform, on behalf of the state and in its place, some clearly definable separate task in transacting the finances of the state, the enterprises, cooperatives and the population constitute a separate group within Level II of the banking system. These financial institutions, too, are khozraschet units with their own balance sheets; as a rule they are expected to operate at a profit, but profit-orientation in their case is a secondary requirement. Their primary task is to perform their special banking function professionally, with due consideration for the interests of the entire national economy. In this respect, then, certain "fixed-path" elements of the present centralized banking system would survive, but the commercial features of these banks would have to be reinforced, and their exercise of public authority curtailed, in comparison with the present situation. In my opinion, it would be expedient to include the following specialized financial institutions in the future banking system:

a. The State Investment and Development Bank (Allami Beruhazasi es Fejlesztési Bank). Its tasks would include: the financing, entirely with state funds, of the large and targeted investment projects specified in the state budget; management of the funds that the state budget earmarks for capital stock formation or investment, and their final or temporary (as credit) redistribution; and the accounting and final disbursement of the funds for capital stock formation,

as state grants to enterprises and cooperatives. The bank maintains the credit and current accounts of the state's cash and credit transactions relating to the bank's tasks. The bank may establish branches for the more efficient and better-organized financing of large investment projects.

b. The Securities and Capital Trading Bank (Ertekpapir- es Tokeforgalmi Bank). Its task is the institutionalized transaction of the flow of capital within the country. Since securities in the socialist economy are primarily economic rather than profit-making instruments, I do not think that the establishment of a stock exchange would be warranted even in the future. Instead, this bank would handle professionally the transactions in conjunction with the flow of capital. It would deal in the bonds issued by the state, the central and local organs of public administration, the enterprises and cooperatives; and also in the securities of business associations operating (or formed) as corporations. On a smaller scale it would participate (perhaps jointly with the commercial banks) in founding business associations, float new securities and trade in them. From the financial institutions and the state it would accept securities for safe custody or as collateral for lombard loans, and it would handle the redemption of securities (e.g., of bonds) when they mature. Through far-reaching security measures, by monitoring strictly, continuously and constantly the creditworthiness and liquidity of both the issuer and the underwriter, the bank would mobilize accumulated savings. For its clients it would thus act as broker only in solid deals. Its resources would consist partially of the capital granted it at the time of its foundation, and partially of resources acquired in the various domestic and foreign capital markets; later on it would form its working capital from its own reserves. It could obtain the additional resources that the efficient and necessary flow of capital required primarily in the form of lombard loans from the bank of issue, by depositing its securities as collateral. This bank would not establish branches.

c. The Construction and Housing Construction Bank (Építési- es Lakasépítési Bank) would mainly provide financing for the construction-industry enterprises and cooperatives, from central and local funds. It would primarily supply working capital for the construction-industry enterprises in the form of short-term credits, while in housing construction it would be the institution that provides financing for housing construction by the state and by private individuals. In this respect there would be a certain division of labor between the Construction and Housing Construction Bank on the one hand, and the State Investment and Development Bank on the other. The latter would disburse the state funds for all central investment and development projects, using for this purpose only the resources provided by the state budget. But the Construction and Housing Construction Bank would finance only housing construction, partially with state funds, and partially with the accumulated down payments and with the proceeds from the sale of the bonds it issues. The construction (housing-construction) bonds would be purchased by the interested citizens and business organizations (the latter would use their housing-construction, special, etc. funds for this purpose). Bond buyers would be guaranteed delivery of the housing units within a specified period of time. To enable this bank to perform its tasks efficiently, the financial institutions--for example, the savings and municipal banks, and the savings and loan cooperatives--would use a certain proportion of their personal savings deposits to buy construction bonds. By

converting the personal savings deposits in this manner, it would be possible to finance all or a large part of the state and private housing construction with longer-term loans. The Construction and Housing Construction Bank would have a medium-size network of branches, up to the provincial centers, to better appraise and supply the demand for financing construction projects. The bank would trade some of its securities through the Securities and Capital Trading Bank described above (Item b.).

d. The Export-Import Bank (Export-Importbank) is essentially the bank of enterprises, cooperatives and state institutions. It is a financial institution that the state commissions and supports to assume partially or entirely the business organizations' risks. Its task is the direct and efficient financial transaction of hard-currency export, the expansion of export that also the state approves and supports, the guaranteeing of the exporters' foreign accounts receivable, the granting of export credits, and the discounting of the commercial credits that exporters extend to their customers. It would provide intermediate- and long-term credits for its exporting customers. In the case of import, its task is the intermediate-term financing of materials that are imported in larger volumes, require lengthier storage and are subject to material allocation, respectively of the imports for state-supported investment projects. Usually the credits and guaranties would be extended directly to the exporter (or importer), but the refinancing of credits provided by commercial banks also could come into consideration. The bank could undertake to guarantee the Hungarian exporter payment by the foreign importer. The credits would be provided mostly from budgetary allotments, supplemented by foreign borrowing, and by revolving-type refinancing by the bank of issue.

e. The Foreign Trade Bank (Kulkereskedelmi Bank) would be fulfilling essentially its present tasks, as a specialized commercial bank. Over and above the financial transaction of foreign-trade deals, it would provide short-term credit financing for the circle of enterprises and cooperatives that by their nature do not fall within the competence of the Export-Import Bank. It would thus contribute to the expansion of existing economic relations with foreign countries, and to improving the supply of the enterprises and cooperatives' demand for financing in conjunction with foreign trade. It would continue to act as the coordinating organization in the financial transaction of special foreign-trade deals, offer consulting and extend foreign-exchange credits. In this respect it would also undertake to finance smaller investment projects, to participate in foreign-exchange and foreign-currency transactions, and to buy and sell foreign currencies. It would remain a unit bank also in the future.

f. The establishment of a Settlements and Clearing Bank (Elszámolási- és Klíringbank) or banks in Budapest and several of the larger provincial centers (hubs) is warranted because the maintenance of accounts at the successor financial institutions will be completely decentralized once the Hungarian National Bank's monopoly of currency circulation ceases. The tasks in conjunction with currency circulation will be taken over predominantly by the general commercial banks, and to a lesser extent by the specialized financial institutions and national banking centers. To ensure that the circulation of checks and direct transfers within the country and especially the interbank and intercity payments, through transfers and collection orders, remain relatively fast despite the decentralization, a banking institution will be essential to handle

clearing efficiently and reliably. Under the present technological conditions, all the prerequisites for this are given. The Settlements and Clearing Bank would maintain direct contact only with financial institutions, but not with business organizations. Despite the relatively large volume of payments cleared, the bank would require only minimal assets of its own because to a large extent it reduces the payments to the daily net balances of the financial institution. The daily net balances of the individual financial institutions could be settled the next day or at regular intervals (e.g., at the end of the week or every 10 days), temporarily perhaps by using revolving credit that the bank of issue provides for the financial institutions. The purpose of establishing clearing banks in the provincial hubs is to avoid the centralization of settlements entirely in Budapest, so that the net balances are settled within larger economic regions tailored to the commercial banks' locations and payments, with only the interregional payments cleared through Budapest.

g. The Central Corporation of Financial Institutions (Penzintezeti Kozpont) would retain its present tasks in the future as well. These include: collection of the population's foreign claims; management of Hungarian citizens' real-estate property abroad, and of the income from such property; and the liquidation of state enterprises, or the supervision of their liquidation. In the future the idea may arise of placing the extensive banking system outlined herein under the systematic control of an agency specializing in the supervision of financial institutions. Although the Ministry of Finance exercises general supervision, and the Hungarian National Bank has authority to supervise monetary matters, a part of this supervision could be delegated to the Central Corporation of Financial Institutions<sup>6</sup> or to some other agency established for this purpose. Control would extend to the banking operations, liquidity and creditworthiness primarily of the smaller state and cooperative financial institutions. Here the question arises of liquidating the General Assets Trading Corporation (Altalanos Ertekeforgalmi Bank Rt) and the so-called bank remnants left over from the nationalization of banks in 1947-1948.

### 3. National Centers of Financial Institutions and Cooperative Banks

Decentralization of the present banking system's range of tasks and modification of its authority will create new conditions in the conception, management and control of banking. The local general commercial banks evolving on a territorial basis will each join a larger institution, spontaneously to a certain extent. But in the case of savings and city banks, and of savings and loan co-operatives, the relatively large number of institutions warrants the establishment by statute of national centers that the individual territorial (city) financial institutions would join as members. The centers would provide the necessary policy guidance, concentrate in the prescribed ratios the inadequately utilized savings and other deposits, and exceptionally discount the credits that exceed the local financial institutions' lending limits. The national centers would function also as the small financial institutions' planning and information offices, and thus also these financial institutions would be integrated, through the Ministry of Finance and the bank of issue, into the uniform system of monetary planning and reporting.

<sup>6</sup>Until 1948, the Central Corporation of Financial Institutions already performed tasks of this type.

On the basis of the local financial institutions' nature and tasks, I regard as expedient the formation of two such national centers: the National Center of Savings and Municipal Banks (Takarekpenztarak es Kommunálbankok Országos Központja), and the National Center of Savings and Loan Cooperatives (Takarek- es Hitelszövetkezetek Országos Központja).

a. State interests, the interests of individual citizens, and monetary security warrant the establishment of the National Center of Savings and Municipal Banks, because in a decentralized banking system--under which citizens have a wide choice of different types of financial institutions to which they can entrust their savings--it is the primary task of specifically the small banks to attract personal savings and to supply the local population's credit needs. The center would not be in direct contact with either the local councils' organs or with citizens. Its customers would include the state; its transactions would be with the bank of issue (which would maintain the center's current account) and with the Level II financial institutions. The center would hold a proportion (specified by decree, separately for demand deposits and for time deposits) of the savings that exceed the local demand for credit. With the financial resources concentrated in this manner--over and above the mandatory reserve with the bank of issue--the center would make secure investments, primarily by purchasing state bonds and securities issued by the Construction and Housing Construction Bank. The center would be a khozraschet institution with surplus assets of its own, which it would invest in the aforementioned manner. It would supplement on an ad hoc basis the money supply of its local savings and municipal banks, granting them short-term (temporary) credits. It would undertake the professional monetary supervision and control of its member banks. And as the successor of the National Savings Bank, it would conduct on the state's behalf the various games of chance (sports pools, number and other lotteries).

b. Similar to the center described above, the National Center of Savings and Loan Cooperatives would integrate the financial institutions under cooperative or other group ownership (e.g., the mutual savings banks) and maintain direct relations with the bank of issue. Within a certain quota, it would hold the deposits accepted by the savings and loan cooperatives, and refinance their cash shortage in exceptional cases through short-, intermediate- and long-term loans. The need for refinancing would arise especially in conjunction with housing construction, farming, and in the case of private artisans and private merchants. In the future we can expect also some of the industrial and agricultural cooperatives, economic associations and work associations to use the services of the savings and loan cooperatives. In this sense the National Center of Savings and Loan Cooperatives could become the agency that supplies them with money. Thus while the National Center of Savings and Municipal Banks would be primarily the creditor of the state and of certain specialized financial institutions (through securities transactions), the National Center of Savings and Loan Cooperatives would indirectly be the banker of small businesses. Its relations with the bank of issue would be twofold: on the one hand, it would transfer to its current account with the bank of issue a specified ratio of the deposits it held; on the other hand, in exceptional cases it would request short-term refinancing from the bank of issue if necessary.

#### 4. Foreign-Owned and Jointly-Owned Financial Institutions in Hungary

My reason for including these financial institutions in Level II is that if their participation in the Hungarian economy is significant, then they must be under central supervision and control by the bank of issue to ensure compliance with the general monetary and foreign-exchange regulations. Regardless of whether these financial institutions operate individually (as subsidiaries or branches of large foreign financial institutions) or under joint ownership, they are important organizations for the flow of capital and could be the principal partners of the Hungarian economy in obtaining loans. The jointly-owned and wholly foreign-owned financial institutions may have business relations only with the state, and with domestic financial institutions and enterprises (usually large enterprises); consequently they could not handle the transactions of private individuals, accept savings deposits or offer personal loans. They would handle foreign remittances to private individuals through some domestic financial institution, primarily the Central Corporation of Financial Institutions or the Foreign Trade Bank.

#### 5. State Budgetary and Other Centralized Funds

In the history of socialist public finances there have evolved centralized and decentralized funds for specific purposes, their use being tied to conditions specified by statute. We can expect such funds to be formed in the future as well. The administration and accounting of the decentralized funds would remain the task of the financial institution that maintains the accounts of the enterprise or cooperative, respectively of the local council. However, the situation is different in the case of the centralized special funds that are involved in some form, partially or entirely, in the flow of capital and whose administration involves banking procedures even today. Such funds are, for example, the innovation fund, the industrial and agricultural innovation fund, the separate reserve funds, etc. In my opinion, it would be expedient also in the future to entrust the administration of such funds to some of the specialized financial institutions. For example, an obvious solution would be to entrust the assets of the state budget's funds for investment and development to the State Investment and Development Bank; the venture-capital and reserve funds for capital formation, to the Securities and Capital Trading Bank; the funds for the expansion of export, to the Export-Import Bank; the resources set aside for housing construction, to the Construction and Housing Construction Bank; the centralized cash funds of the local councils, to the National Center of Savings and Municipal Banks; and the joint funds of cooperatives, to the National Center of Savings and Loan Cooperatives. The listed financial institutions would see to it that the funds are managed professionally, used in a planned manner, and controlled.

#### III. Level III Financial Institutions

To this level belong the territorial (regional) and city general commercial banks, savings banks, municipal banks, and the savings and loan cooperatives; in other words, the smaller financial institutions located in one of the country's economic regions and closely integrated into its industry, agriculture and trade. Furthermore, we may include here the subsidiaries of the Level II banks, and the other financial institutions formed as business associations,

for special purposes. Their common characteristic is that they are linked to the bank of issue not independently and directly, but only through one of the larger banks, usually a large general commercial bank, or one of the two national centers discussed in Chapter II, Paragraph 3. Hence it follows that strong ties bind these financial institutions to the larger ones, economically as well as organizationally. Although legally they are entirely independent of the large banks, their economic dependence stems from the necessary banking relations (maintenance of accounts, rediscounting of loans) through which they are plugged into the entire nation's monetary blood circulation. In principle we encounter in Level III the same types of financial institutions as in Level II, but with substantially less capital and smaller area of influence. Through their local economic role and functions, these financial institutions are in closest contact with the business organizations and transact the bulk of the population's banking.

The typical type of bank in Level III is the territorial (or city) savings and municipal bank. It is the institution that holds the savings of the population and local councils, and supplies them with credit when they are short of cash. Through the large and specialized financial institutions, it could trade in securities, and also in foreign exchange and foreign currencies. To better supply the local demand for banking services, it would initiate and execute banking and credit transactions, including the issuance of municipal, enterprise and cooperative bonds, the formation of associations and other business ventures. Adapting to the demand, the larger territorial, regional or city savings and municipal banks could open branches so as to bring the banking services closer to where they are used.

The savings and loan cooperatives are typical of the Level III financial institutions under cooperative and other group ownership. We encounter here also the local financial institutions formed as associations, with the participation of mutual savings banks or cooperatives. In principle, the savings and loan cooperatives would be able to engage in any banking operation for which there was a demand in their area. But the mutual savings banks, and the financial institutions formed by association as enterprises or cooperatives, could accept deposits only from their members, and could provide credits only for members, up to some specified ratio of their deposits and own assets.

#### C. Manner and Schedule of Establishing the Proposed Banking System

The capitalist countries' banking systems have evolved in their present form over a long historical period. But the socialist countries' banking systems developed into still viable organizations over a relatively short period of a few years after the victory of the revolution, respectively after the year of change, with minor modifications along the way. The extensive banking system that I propose and have outlined above cannot be established by issuing a single decree; instead, a certain period of transformation will be necessary. The preparations alone will require several years, and the establishment of an actually functioning structure of banks can be imagined only in several stages. The founding of general commercial banks, respectively the initiatives for their formation, could start from two directions:

- First, the enterprises and cooperatives that are in close contact with one another territorially (i.e., horizontally) or in their line of business (i.e., vertically) could pool their assets to found a financial institution, if they are able to provide the specified minimum of capital and assets sufficient for an independent financial institution.
- Secondly, the Hungarian National Bank could spin off existing subdivisions into independent banks on a territorial basis or by branches of the economy, transferring to them a proportion of their assets and liabilities, and of their capital.\* In conjunction with the establishment of general commercial banks we can expect the ministry and council organs of public administration to exercise their influence, although it is not a prerequisite for an efficiently functioning banking system that the individual financial institutions operate parallel with, and subordinate to, the existing hierarchy. In my opinion, this tendency should even be curbed if the banks are to become real driving forces of the economy. Consequently, the spontaneous formation of commercial banks should be allowed, at least initially. This applies particularly to the regional banks of the territorial and urban economic districts. Here region means a fairly well defined and partially closed economic district in which the establishment of a more or less independent financial institution is warranted by the density and intensive nature of industry, trade and agriculture. Moreover, also a relatively short geographic distance makes the establishment of such financial institutions reasonable and economical.

The establishment of specialized financial institutions warrants a practice different from the one outlined above. Partially because some of the specialized financial institutions are already functioning banks, and only minor modifications will be necessary in their articles of association. And also because the state must provide the initiative for the establishment of specialized financial institutions, in view of their functions. Occasionally, however, initiatives by enterprises or existing financial institutions could be allowed.

The national centers, as I have pointed out earlier, would have to be established by statute because the small banks (people's banks) scattered throughout the country are in contact with a large proportion of the citizens, as the financial institutions, savings banks and creditors of the common man. Actually the National Center of Savings and Municipal Banks would be formed from the present National Savings Bank, with new tasks and under more streamlined conditions, as the supervising organ of the mutually "competing" small banks. The national center for the savings and loan cooperatives would likewise be created by fiat, and partially would take over some of the functions of the National Savings Bank.

Within the proposed banking system, mainly the savings and loan cooperatives can be said to be in place, because they are formed in the smallest administrative subdivisions, through the spontaneous activity and initiative of local residents. This spontaneity should be retained also in the future, and there should be no restrictions on forming such cooperatives.

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\*This solution is an obvious one, but the Hungarian National Bank's international relations also must be taken into consideration.

The category of banks established as business associations comprises a separate chapter in the founding of financial institutions. Such financial institutions may be formed by enterprises, cooperatives and existing financial institutions, as business associations or corporations. Ventures of this type among financial institutions could be imagined as the consolidation of smaller financial institutions financing the same branches of the national economy, into nationwide financial institutions. In this model, then, smaller financial institutions created by economic necessity, and perhaps nationwide large enterprises, join forces to establish new financial institutions operating as business associations, instead of financial institutions that are differentiated according to the national economy's branches and sectors and are formed by statute, from above.

Formation of the nationwide large financial institutions' or large provincial banks' network of branches would be a process taking place in the last stage of development. Knowing their own tasks, the financial institutions could decide whether or not to open branches in local centers or larger cities. The nationwide large banks would also have to decide whether or not to establish subsidiaries.

#### D. Supervision, Control

Separate arguments, I believe, will be unnecessary to support the contention that an extensive banking system such as I have outlined, one that is subdivided by specialization and consists of units scattered throughout the country, cannot be imagined without professional supervision and systematic control. It is in the interest of the national economy that the financial institutions controlling, systematically monitoring and actively influencing the economy's blood circulation operate purposefully and in conformity with the plan. Adapting to the needs of a multilevel banking system and taking also the international experience [4] into consideration, we ought to develop the supervision and control of the Level II and III financial institutions on a twofold basis. Under this division of labor, the Ministry of Finance as the government agency exercising the rights of the state as owner would have the right and duty to provide professional guidance and general financial supervision; and the Hungarian National Bank as the central monetary authority would have the right to exercise special monetary supervision and control. Supervision and control would be exercised partially by prescribing the preparation and submission of special bank reports and balance sheets; and partially through on-the-spot audits. The Ministry of Finance could also delegate the professional auditing of the financial institutions' balance sheets and accounts to one of the specialized financial institutions. For in a multilevel banking system the balance sheets of the individual financial institutions, besides showing the results of their operations, must also undergo thorough analysis to determine the financial institutions' liquidity, the mobility of their assets, and the maturity structure of their liabilities. Furthermore, the settlements between financial institutions provide important information regarding the extent of linkage to the higher levels of the banking system, the conformity of monetary management to the plan, and the maintenance and extent of economic and fiscal equilibrium. Thus the settlements between financial institutions have become an important tool of one of the methods of economic management.

Above I have already discussed that in a multilevel banking system the method of indirect regulation by the bank of issue is more complex and transmitted than in the socialist countries' one-level banking systems. For this very reason the bank of issue will have to be one of the central agencies of economic management, an information and planning center, also under the new conditions. In its relations with the Level II financial institutions it may employ not only the indirect, but occasionally also the direct methods of monetary regulation. To this end the Hungarian National Bank will continuously control the financial institutions, especially their compliance with the lending, liquidity and foreign exchange regulations, and the maintenance of external economic equilibrium. Within this range of tasks the functions differ from those of the Ministry of Finance also because the state budget operates from the outset with distributed national income, and because in several respects close control of public finances is lacking that could automatically and institutionally ensure the coordination of the issuance of currency, the creation of money, lending, and foreign-exchange earnings and expenditures.

In conclusion I would like to emphasize that the outlined concept is an open model of the Hungarian banking system, one that can always be modified when necessary, parallel with perfecting the system of economic management and the economic mechanism. This statement applies to the individual types of banks, and to the specific tasks and functions of the individual financial institutions as well. My purpose in writing this article has been to aid the more professional execution of this task by arranging into a bouquet the banking system's elements.

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HUNGARY

HUNGARIAN AGRICULTURE: EXPORT SURPLUS OR SURPLUS GROWTH

Budapest KULGAZDASAG in Hungarian No 3, Mar 85 pp 3-15

[Article by Kamilla Lanyi, Main Department head at the Institute of Economics and Market Research: "Hungarian Agriculture: Export Surplus or Surplus Growth? Contributions to the Developmental Strategy for Hungarian Agriculture"]

[Excerpt] Review of Hungarian Agricultural Development During Past Two Decades

The supported development of Hungarian agriculture shows at least two analogies with that of the Western European countries. It brought income parity for those working in agriculture with those working in industry and halted the rapid aging of agricultural workers. Industrial methods were also realized here in large and relatively secure yields while expenditures increased more quickly than production.

At the end of the 1970's and beginning of the 1980's this increasing production led to occasional unpredicted surpluses in some places. This is sometimes regarded as a natural concomitant of supported development or simply a result of agricultural production, which state market intervention must handle--but more recently supports which are not rational have been made responsible for this.<sup>1</sup> In recent years it has been a veritable commonplace to observe that two thirds or more of the increase in agricultural production hereafter can be sold only on the external market. Is there such a spontaneous surplus or one caused by protectionism? Obviously there is, or could be. If it is true that supports should be given so that every single farm is forced to continually increase both total production and gross production per worker then production must increase, even though the--net--income of both the large farms and small producers may decrease at the same time.<sup>2</sup> We might discover in this a new analogy between the stumbling blocks of domestic and Western European agricultural development.

But we must note that the Third 5-Year Plan applying to the years 1965-1970 prescribed--already or still--an increase in the export performance of agriculture for the purpose of improving the capitalist payments balance. The long-range plan concept valid since 1970 counted on domestic self-supply in every agricultural product which can be successfully produced here together with increasing export of everything which can be produced, processed and sold. This concept was reviewed in 1978 from the viewpoint of converting to

the "new growth path" and according to many this conversion has taken place since then in the sense that since 1978 the growth of agricultural production has been relatively faster than that of industry.<sup>3</sup>

How could one justify the swift development, lasting two decades, which was possible even when the accumulation and income proportions of the farms and farm workers--which had been so meager before--changed to their benefit?

In the beginning, at the end of the 1960's and beginning of the 1970's, the chief argument was supply to the population, which meant self-supply, certainly in a socialist country but in the majority of European countries as well.

In the mid-1970's growth, operational concentration, organizational and specialization trends, technological choices together with central guidance methods found their chief justification in the long-term cooperation target program of CEMA pertaining to the foodstuffs economy. Thus the Hungarian foodstuffs economy undertook the role of coordinator in this. The idea arose at that time that with its deliveries of goods Hungary might assume a larger role in solving the food problems of the region, although the target program did not contain this task. And in 1975 Hungarian agriculture was forced out of the Common Market with its bulk products, and could sell them in the socialist countries under relatively favorable conditions.

In spite of everything, the long-range concept for the development of the foodstuffs economy was reviewed in 1978 and then--for the first time--efficiency and competitiveness were posed as tasks for the branch.<sup>4</sup> At that time, however, the possible contradiction between the stressed, unbroken, dynamic development and efficient, competitive production and marketing did not come up.

Not much later a prediction about a foodstuffs price explosion similar to the oil price explosion spread in Hungary--it is true, not for long.<sup>5</sup> This portrayed the problems of efficiency as less important and it became fashionable to call foodstuffs, especially grain and meat, strategic articles, which could take the problem of competitiveness from the shoulders of producers and merchants.<sup>6</sup> But even more was involved. Namely, that if the two hypotheses proved true then agriculture would be able to pay the increased raw material bill of the country, or at least a large part of it, simply by continuing the growth trends up to that time--thus specializing in grain and meat and worrying less about the rest.

The season of paying the bills came even without that. The foodstuffs economy is the only large branch showing a massive active balance in dollars, a limit to its growth can be set only by reducing the active balance which could be produced by it, but even that is not unconditional because its importance in ruble accounting export could or will grow as well.

The listing of tasks assumed was not self-serving. We would have liked to have demonstrated that the money, assets and measures necessary for the development and swift growth of agriculture always had to be justified by special performance which could be recognized as a goal of the entire economy.

It was as if all this could not be obtained for modern agriculture itself, for the favorable effect that would have on the entire economy. Why not?

#### Export, Protection of Agriculture

Agricultural production takes place diffusely on a very large number of farms. The producers can react to intervention only after the fact. Interest representation, defending the interests of producers and of agricultural production itself is possible in a different sort of organization through other channels than that of industrial enterprises and workers in industry. Actually, the protection of interests got a voice and its own area of movement in Hungary only in the mid-1960's, as manifested in the bargaining about the supports system and tax system or in the distribution of the supports received. In the meantime there was virtually never a public debate about the developmental strategy for agriculture, and what there was virtually never disclosed the substantial differences in view between the "agrarians" and the "anti-agrarians."

In what follows we will try to formulate in a very simplified form the chief elements of the system of views of the two camps.

The arguments of the first group are directed at protecting the interests of the peasantry and of agricultural production as such:

--Agriculture always was and will be one of the most important branches in Hungary because of the geographic situation and climate of the country, the extent of the area suitable for cultivation and the values embodied in traditions and expertise;

--Producing land is a practically inexhaustible natural resource which becomes ever more valuable in the course of time, a resource which can be realized only through cultivation;

--The producing, community and infrastructural investments in the village necessary to employ the village population are smaller than in industrial centers and are smaller in agriculture than in most industrial and service branches;

--It is unimaginable in the present situation of Hungary, or even in the longer term, that a larger proportion of the foodstuffs needs of the population could be satisfied from import;

--In an open economy there must be at least one large branch which has an export surplus.

Thus, in accordance with the above, we must protect the producing land and must exploit all the land that can be cultivated to the limit of its ecological potential. We must continue to modernize the foodstuffs economy and support the producing spirit of the peasantry.

According to the opinion of the other group the reduced role of agriculture, the migration of the village population away from the village and urbanization constitute an irresistible historical process. Slowing this process is irrational from both economic and social viewpoints and withdraws resources from the progressive branches which would pay off better there. The most important arguments are the following:

- Increasing agricultural production is based on supports and protectionism;
- Due to protectionism there is manpower shortage in industry, in construction industry and in services;
- The income of a part of the peasantry is unreasonably high;
- The modernization of production is frequently self-serving; the cheap money going to agriculture does not encourage the choice of conserving technologies; the increase in productivity and yields cannot counterbalance the increase in unit costs;
- The results of efficiency calculations pertaining to agricultural production and export are unacceptable because of distortions in the price system and the absence of capital costs; according to newer calculations the accumulated capitalist import content of foodstuffs and agricultural production reaches that of the largest industrial export branches, while the dollar generation indexes of its export are among the worst;
- Maintaining or even increasing agricultural export and supply to the population could be achieved more cheaply than at present with limits on or stricter supervision of investments, import and incomes.

Seeing that political and social arguments did not come to the surface in the debate concerning the status, role and developmental strategy of agriculture, those who had committed themselves to the development and modernization of agriculture and to the wellbeing of agricultural workers tried to support with economic arguments the justification and defense of these things. With these arguments they took aim at some very burning problem of the entire economy, as if the chief role in solving it might fall on agriculture. Among the leading targets was always export, especially capitalist export, and later only dollar accounting export. Bringing up export could be convincing, among other things, because in general both camps counted on the given level, or even on an increasing level, of agricultural export. There never crystallized a position which would have proposed less extensive production, and thus export, below a given level, with swifter technical development, while maintaining income parity.

#### Foodstuffs Economy Successes, Reason for Doubts

From 1965 to the present the share of agriculture and the foodstuffs industry in the total national product in Hungary fell from 32 percent to about 25 percent, in national income it fell from 32 percent to about 20 percent, while the ratio of agricultural employees among all employees is today about 16 percent. (It should be noted that the number of those working in agriculture

is a good bit greater than this, but according to many the national income produced in agriculture is also more than the calculated figure.) During the entire period the share of the foodstuffs economy in the total export of the country varied between 22 and 24 percent. Its share in the value of dollar export was a good bit greater than this and now is 30-31 percent.

Hungary is the only one of the member countries of CEMA where as much grain and meat are produced, compared to the size of the population, as is customarily formulated as the goal for the region as a whole, a very distant and rather uncertainly defined goal, and where these products need not be exported at the expense of domestic consumption.

Beginning in 1965, which was the first year to end plan breakdown by farm, the rate of growth of agricultural production, in the strict sense, regularly exceeded what was planned and in general was greater than that of small European countries with an agriculture more developed than ours. After 1968, the year the new economic mechanism was introduced, and especially after 1970, when product trade among agricultural operations was made free, there were striking advances in technical development, in production methods and in technologies, which were realized in large yields for grain types and maize, relatively independent of the weather.

In the mid-1960's only about 22 percent of agricultural production was exported in an unprocessed or processed form. Today this ratio usually reaches 30 percent. In the meantime it has been customary to regard the foodstuffs economy as a branch in which production and the accompanying export must increase in an unbroken way in the future as well.

In the last few years this opinion has lost much of its persuasive strength. The reasons are obvious: the import need of agricultural production, and especially its capitalist import need, is increasing swiftly; both agriculture and the foodstuffs industry are increasingly becoming capital intensive branches; it is increasingly difficult to replace the tools of production being used up in agriculture; the increase in yields is slower than the increase in expenditures; repeated export economy calculations in recent years give increasingly worse ruble and dollar generation indexes for foodstuffs; and the countries of CEMA are buying an ever greater part of the agricultural and foodstuffs industry export--the dollar export too. So the dollar balance of the foodstuffs economy is positive, but the active capitalist balance is disappearing (calculating in the accumulated import expenditures of capitalist origin but leaving out the value of the non-competitive foodstuffs import).

#### Several Problems Involving Orientation to Socialist Markets

Since 1973 Hungarian foodstuffs export has regarded the Soviet Union and a few socialist countries as its largest and most secure receiving market and every prognosis or plan today which counts on increasing foodstuffs economy export intends to rely on the socialist markets to the same or even greater extent. The larger part of the foodstuffs export, at present about 60 percent, is grain and meat. According to the long-range forecasts this will increase most swiftly and may reach 80 percent. In this regard Hungary has already taken the path of specialization, not in the international division of labor in general but rather amidst those specific conditions which the CEMA region has to offer.

It counts as a commonplace but still it must be said that each of the socialist countries is striving for self-supply in all basic foodstuffs and domestic production appears to be cheaper than import for each of them--with the possible exception of the GDR--independent of whether they pay for the import with rubles or dollars. So foodstuffs import appears to the socialist countries as a sacrifice which is worth making only as a function of the production results or supply situation of the given year, or with the intention of improving supply.

It must be noted also that in regard to its geographic location Hungary is very far from those areas of the Soviet Union in which improving supply would be especially important. Perishable foodstuffs can be shipped from Hungary only to the limit of a rather restricted transport, storage and reception capacity and in regard to other products the harvest season seems too short for export to be expandable.

It should be remembered also that what Hungary can offer to its socialist partners, especially to the Soviet Union, even according to the most daring plans, is not so much or so valuable that they would be willing or able, under this heading, to supply Hungarian agriculture with all those machines, chemicals and transport vehicles which would be required to increase export many times. When they pay for a part of the export with dollars or oil, they are offering, in principle, cover for the import which can be obtained only from capitalist countries.<sup>7</sup>

In the 1970's the CEMA contract price index for raw materials and fuels lagged behind the world market price index to a smaller degree than that for foodstuffs while the price indexes for machine industry products largely followed the change in world market prices. The situation is largely the same if we look at dollar export going to the socialist countries.

If the prices do not show that we must or should increase export then, naturally, different considerations come to the fore--the relative hardness or scarcity of the foodstuffs which could be offered for export and of the raw materials which could be obtained in exchange, how much they can be processed and the natural convertibility ratios calculated according to the external market demand for the products which can be produced from them.

This sort of trade can start an unforeseeable chain of economic decisions and new links, completely divorced from farming, can be formed between foreign trade, industry and agriculture. The methods and the organizational and financial system in which the result of such calculations could be realized as production policy goals in agriculture would require the greatest possible centralization, ever greater uniformity of the farms, an artificial income structure, fewer and fewer market contacts and unequalled foreign market information. We feel that the successes of the Hungarian foodstuffs economy thus far cannot be attributed to factors akin to such a model but rather to those which make it different from such a model.

## Capitalist Markets, Conditions for Competitiveness

In recent years the marketing conditions on the markets for temperate zone agricultural products have become more difficult in general and the relative advantages which Hungary enjoyed earlier by virtue of its geographic situation are disappearing. Even the industrializing or moderately developed countries and groups of countries are oriented toward self-supply. The developing countries, citing the experiences of the population explosion, are trying to choose a method of industrialization and urbanization which will no longer be accompanied by the destruction of the natural environment and their own domestic foodstuffs production. Solvent demand for bulk products--primarily grain--has shifted to such distant regions that the freight costs frequently eat up the profit expected from export.

Foodstuffs production uses much energy, chemicals and machinery, for the time being costs are increasing more than prices. To export more than today to accessible markets is possible only at the price of much investment, with greater costs, using more import and often at worse prices. So we must debate with those who predict increasing export income--with increasing economy--knowing the present export volume, product structure, relationship distribution and price relationships.

We probably can accept--for every calculation shows this--that of the bulk products the wheat, maize and vegetable oil can be exported most economically at present. The economy of vegetables, fruits and animal products is much worse, but their ratio in trade is much greater than that of the former because their production value and foreign exchange yield per hectare or per unit of fixed assets are higher than those of grain or sunflowers. The export of vegetables, fruits and animal products could be replaced by that of grain and oil only to a small extent, and this replacement would probably require greater expenditures than at present. But even if they could be replaced entirely, which is an unrealistic supposition, it must be noted that the world market prices of grain and vegetable oils vary more widely than those of most foodstuffs exported.

Thus far the production of vegetables and fruits has been among the least stable branches, the worst in regard to planning, in Hungarian agriculture and the processed products of this production can be sold at especially bad prices. We see the chief causes of this in the deficiencies of the production and marketing infrastructure, in the weak links between the producing and marketing enterprises. We are paying here for everything left out of the sphere of products enjoying greatest state preference or left to the tiny farms, kept at a low technological level and to scattered, unintegrated production; or if they are produced on large farms they are produced in the shadow of grain and meat, frequently as independent, neglected undertakings, lacking their own market contacts, reacting badly or not at all to demand.

As far as we know there are no interdependent plans for more economical conduct of animal husbandry and the fodder conversion linked to it which would bring a promising solution in regard to all present production or a volume greater than the present one. The situation of the agricultural operations is

such that they are dealing with animal husbandry even if it is the least economical, for employment reasons or because of the size of the money receipts or because they get special support for it.

All this seems to support our opinion that forcing foodstuffs export is taking the attention, and the money, of the farms from those tasks required to improve economy. Naturally agriculture has specific features which distinguish it from other branches. But it does not have a specific feature according to which it would be sufficient in agriculture to buy modern machines and adapt the most developed technologies and then the item produced with them becomes a competitive commodity forthwith.

Naturally one can agree with those economists who consider it advantageous that there are at least 400 food articles--according to others 800 or 1,000--which are exported relatively regularly or who call attention to the fact that the export of a number of articles could be increased or that prices could be raised on the capitalist market with flexible changes among processed and unprocessed products, with more modern foodstuffs industry processing, better packaging and labeling, more clever or less conservative advertising and with a foreign trade organization more suitable than the present one.

But for the time being these considerations are valid for only a rather small part of export, a part which is decreasing rather than increasing at the moment.

The developmental path chosen in the 1970's has led to the situation that Hungarian agriculture, foodstuffs processing industry and trade have not learned and could not have learned those production and marketing forms which have developed in West Europe, which are now spreading to southern European agriculture, which are at a lower developmental level Hungary, and the existence of which is not only a condition for cultured domestic foodstuffs supply but without which relatively regular, and especially increasing and economical, export to Western Europe or solvent developing countries seems hopeless.

In the past two decades in Hungary the development of the branches offering input to agricultural production and the development of the foodstuffs industry have lagged behind the development of agricultural basic production. Among the enterprises which can be included in "agri-business" there has not developed a link by means of which the input, processing and trade branches might play the role of a developing and integrating pole in agricultural production and marketing. Because of the monopoly situation and backwardness of foodstuffs trade--both wholesale and retail--there is no balanced market posing sufficiently high requirements for agricultural products and foodstuffs which would force from agriculture and the foodstuffs industry that care and quality which would make the foodstuffs advantageously marketable on capitalist markets as well. Foreign trade in agricultural and foodstuffs industry products is taking place in an organization developed in the 1950's, the results of foreign trade activity can still be felt only in industry and wholesale trade, hardly on the farms. The agricultural price system is such that the domestic and foreign markets for their products cannot be understood by the agricultural producers, even independent of the market organization.

The producers cannot track the path of their products and have no interest in doing so. They cannot base their production decisions on market type information. Instead they must be guided in their decisions by a supports system and an artificially devised profitability of operations and products which have nothing in common with actual expenditures or prices but rather are put together by central organs partly out of political considerations and partly on the basis of uncertain data pertaining to national economic efficiency.

In our view how much capitalist export can be predicted, with sharpening competition and changing demands, depends on what sort of internal--enterprise and management--relationships, what sort of vertical integration, what sort of operational and entrepreneurial forms, what sort of price system and what channels of state support we consider possible and desirable in agriculture. If the present trend of the latter continues then all or almost all of the export surplus can go only to the Eastern European markets, with deteriorating economy.

#### Additional Obstacles to Structural Change

It is customary to regard agriculture and the foodstuffs industry as so-called declining branches--because of the decrease in their share. This is true from the statistical point of view, but this is not an appropriate way to draw conclusions regarding the fate and future of the branch, for it satisfies basic and endless consumption and production needs. It is a phenomenon worthy of note that at the time of the world economic recession of 1979-1982 the foodstuffs industry of the world did not go through a crisis, although it is also true that it is not having a share in the upswing which started thereafter.

At the same time, most forecasts predict an unbroken, dynamic development of Hungarian foodstuffs export both in the middle term and up to the end of the century. Accordingly they recommend an economic policy which is aimed at a further increase in agricultural production by means of increasing, although more selective, state support and with a slow change in land structure, product structure and operational and entrepreneurial forms, in accordance with the trends experienced in the 1970's. In our opinion this developmental strategy will strengthen those factors which already make dubious the economic nature of agricultural production and export as a whole; it will present an obstacle to the swift modernization of farms capable of it whereby they could specialize in the production most suitable for them and reach within a foreseeable time a level where the extra expenditures would be repaid in yields and the unit costs decrease, as is just beginning to happen in the agriculture of West Europe after 25-30 years of supported development.

The goal of every support policy is that the agricultural operations and their organizations be able to replace out of their own receipts the fixed assets created by the supports, modernize them, and pay back the larger part of the supports. Naturally one must include in this repayment a calculation of the external savings which are enjoyed by the linking branches in their domestic market and export activity--if any. The backwardness of the linking branches or the deficient nature of their contacts with the agricultural operations can be an obstacle to the creation of such external savings.

Naturally it can also be an obstacle to the repayment of the supports if some links are missing in the process of the industrialization of agriculture.

A considerable part of the agricultural investments in Hungary thus far were subordinated not to the modernization of agriculture but rather to two goals deviating from this--increasing the volume of product and the operational forms which developed or were devised in the past 20 years. As a result of this buildings make up a disproportionately large part of the fixed assets of agriculture, to the detriment of machines, and a disproportionately large part of the machine investments are made up of those which were made or are being made to supplement land falling out of production or the work force departing in an irregular way.

In regard to the agricultural investments, they began to spend on the production infrastructure only recently and virtually no one is spending anything on marketing. Agriculture is also suffering from the present state of the road network, transportation and communications. The larger an operation is the more difficult it is to get the goods out of it in good condition or to maintain contact with those in the fields. Whether the operation is small or large it is difficult to maintain contact with the outside world, that is, with the market.

These problems are strikingly similar to those we can experience in other parts of the economy as well. But there are also specific causes characteristic only of agriculture for the low efficiency of investments and supported development.

Because of the narrow variety and unsatisfactory quality the machines which can be found in Hungarian agriculture are capable of less and they must be replaced more frequently than would be expected on the basis of their recorded value. A large part of the machines in operation come from import, primarily from neighboring socialist countries. The farms are dissatisfied with the products of the Hungarian agricultural machine industry, consider them disproportionately expensive, and they can pay for capitalist import only in the event of special concessions. Agricultural machine trade (foreign trade and wholesale trade) has direct contact with only a fraction of the users.

There are many investments where there is not enough expertise to operate them well and there are those which did not bring success because of the clumsiness or disinterest of the marketing organization. There are still few investments inspired by the user or by trade, frequently the marketing security is not sufficient. All this frequently leads to a situation where the farms do not use their expensive buildings and machines, or use them for a different purpose than that for which they were intended.

How are these phenomena linked to forced growth and the trends of export?

In the first place agricultural production can offer only in the large farms and only in a few bulk products goods which can be classified as marketable from the viewpoint of uniform quality and delivery security. Then they need more and more of these, because their prices vary greatly although producing

them costs more and more. Industry, transport and trade pour their ever more scanty assets into serving, moving and selling this always increasing volume. Everything else is neglected, which under domestic circumstances seems that it is shifted over to the small operations. Going beyond primary agricultural production, this product no longer appears in the processing industry or in trade as a commodity of uniform good quality, potentially satisfying the needs of external markets, which it would be worth paying more for or for which it would be worth investing in processing or market organization, or pay for advertising, or even organize foreign cooperation from which they might learn something about the how and why of these things in primary production, further processing and trade. Thus the conditions for economic growth are not given precisely in those production branches and for those products which might be sold on markets saturated with basic foodstuffs or protected in a protectionist manner.

The second interdependency consists of the fact that the conditions for changing the combination of production factors and for regrouping capital are given in agriculture even less than in the other branches of the economy.

For example, it has never been made clear why agricultural production must be maintained, indeed increased, in producer cooperatives operating under especially bad natural conditions--operating in an organization and with a production structure identical to the other producer cooperatives. It would be important to clear this up because, due to the artificial income and price relationships, these farms must compete for every supported investment, the result of which will be the production of more goods at supported prices, even if their conditions are such that this production is swamped beside that of farms with good conditions. And most often they get support for those activities which occupy a prominent place in the export development plans of a given period.

This is one of those mechanisms which in the near future may overturn that very uncertain balance which for the time being exists between the relatively even yields constituting the basis for export and the not entirely satisfactory, dilatory method of replacing assets used up--at the present level of production. We feel that this production level, or one a bit lower, can be maintained only at the price of a restructuring in which the problems of modernization can take place with an economically rational combination of the production factors existing in some farms--land, manpower, capital--which might include the partial withdrawal of some factors from direct agricultural production, if this is advantageous for the farm.

The very small amount of foreign cooperation in agricultural production and in the branches serving it or buying its products and the lack of inclination to bring in foreign operating capital are still striking.

The possibility for withdrawing capital and regrouping capital would also be an elementary condition for a structural transformation in agriculture, which cannot be imagined as the internal task of the several farms. But there would be sense in it only if it were also possible to change the operational structure and enterprise structure, and not only in the direction of further concentration.

If these two conditions are met it can be imagined that a resolution of the tensions listed thus far, even if it requires no less investment than that with which we must reckon today, may be accompanied by greater economic effect than if it had to be adjusted to the present allocation of production and the continued linear growth.

#### Concluding Observations

It can be regarded as a gratifying phenomenon that publicity has been given recently--at least in professional journals--to views according to which the development of agriculture should be determined "not at some previously desired rate of growth of one, two or three percent" but rather on the basis of the market conditions at the time and on the basis of the expenditures and yields of adjusting to these conditions.<sup>8</sup>

In our opinion the growth in the volume of agricultural production should not be planned as a plan goal to be reached. Instead, we should work out programs pertaining to the modernization of agriculture and the linking branches, and the production increase which may derive from these might figure in the national economic plans as plan forecasts.

We also consider necessary state support for agricultural production and maintaining the income parity of those working in agriculture, but not in the interest of increasing production and export at any price. On the contrary, support for the least efficient production might be gradually terminated. For example, the obligatory nature of keeping the especially weak producer cooperatives in one piece might be abandoned and one might abandon the land use or production constraint in areas unsuitable or hardly suitable for agricultural cultivation. We should also make it possible for private persons with agricultural expertise to rent land on a permanent basis, independently or through a cooperative, on fields taken out of some sorts of cultivation.

We should regard modern specialized production, secure yields and greater production or marketing discipline as the chief goal of supports. This would be the condition that the expenditures for agricultural production should not increase with the prior speed and that the surplus should be exportable economically. We should gradually but as quickly as possible eliminate that role of support whereby the supports, instead of the prices, cover a part of the regular expenditures of even the best producing farms.

#### FOOTNOTES

1. Ferenc Vagi: "Agriculture in Long-Range Socio-Economic Development," KOZGADASAGI SZEMLE, No 1, 1984.

2. Since the end of the 1970's the real value of the net income of agricultural operations has actually decreased. See Ferenc Vagi: "Growth in Agriculture and in its Economic Organization," Karl Marx Economics University, Agricultural Faculty, 1984. He also demonstrates very convincingly here the interdependent nature of the supports system and the growth constraint.

3. Jeno Vancsa: "What is the Foodstuffs Economy Capable Of?" TARSADALMI SZEMLE, No 3, 1984.

4. Mrs Bela Palovics: "Long-Range Development of the Foodstuffs Economy," GAZDASAG, No 1, 1983.

5. In the first half of the 1970's many expected excessive demands and extraordinarily swift price increases on the world market for foodstuffs. This expectation was based on the weak agricultural performance of the developing countries and on the lasting increase in the price of fuel and artificial fertilizers used in agriculture. Subsequently, however, the foodstuffs production of the developing countries outside of Africa increased more quickly than before and the increasing price of agricultural inputs increased not the costs of the peasants of the developing countries but rather those of the producers in the developed capitalist countries. In 1979 the developing countries again harvested a weak crop. This, and the fact of the second oil price explosion, again fed speculation about a foodstuffs price explosion in the daily and weekly papers for a short time. In the meantime the world market price for foodstuffs increased, until 1980, at almost the same rate as the price for processing industry products, and since 1981 it has been falling. One cannot read about a worldwide food shortage or price explosion in any serious prognosis, and we have no knowledge that a developmental strategy has been based on such a prognosis anywhere in the world. For the history of this see D. Gale Johnson: "The World Food Situation; Developments During the 1970's and Prospects for the 1980's" (in "International Economic Policies and Their Theoretical Foundations," John M. Letiche editor, Academic Press, New York-London, etc., 1982). In regard to the forecasts, see: "Agriculture: Toward 2000", FAO, Rome, 1979. In regard to the development of prices, see the January issues of the UN Monthly Bulletin of Statistics.

6. "Food is a strategic item" was a slogan which came into fashion in 1980 at the time of the ultimately ineffective American grain embargo, but it is sometimes mentioned even today. In reality the production of food surpluses is not monopolized in the way that a few raw materials are. The largest importers can successfully protect themselves against having the denial of export by a few countries or groups of countries disrupt their economies or reduce their war potential. In contrast to this it is true that those countries which have increased their import most quickly in the last two decades--the Soviet Union and the Near East oil producers--strongly influence the internal market of the exporting countries with their purchases and for this reason certain political weight can be and is given to their orders.

7. According to the 1982 data of the Statistical Yearbook of the Central Statistics Office the value of foodstuffs export to CEMA was 49.7 billion forints in 1982, the year of greatest trade; that of ruble accounting export was 21.8 billion forints and export to developed and developing capitalist countries was 29.5 billion forints.

8. Gyula Varga: "Alternatives in the Development of Foodstuffs Production," KOZGAZDASAGI SZEMLE, No 3, 1983, and the already cited article of Ferenc Vagi, KOZGAZDASAGI SZEMLE, No 1, 1984, which strongly emphasizes that agriculture certainly must not be regarded as a branch which could have the role of pushing the entire economy into growth.

8984

J: 8125/1230

HUNGARY

# MEASURES TO HALT DECLINE IN CORN PRODUCTION

Budapest NEPSZABADSAG in Hungarian 23 Apr 85 p 5

[Summary] In an attempt to halt the already perceived decline in corn hectareage, the authorities have decided to forego the land tax and to reduce the income tax of farms which produce or agree to produce more corn. Grain industry enterprises plan to offer the farms higher fees for shipping and storage of corn as well as for related services. As an additional incentive, a 5 percent premium will be paid for corn sold to the industry regardless of whether it derives from last or this year's crop. Pricing according to grade of corn delivered is also under consideration. Furthermore, farms are to be offered fodder mix at prices set for a full year even though some components of the mix may have been purchased abroad at a higher price.

CSO: 2500/355

POLAND

## LAW ON TRADEMARKS PUBLISHED

Warsaw DZIENNIK USTAW in Polish No 5, 15 Feb 85 item 17 pp 37-43

[Text] Chapter 1. General Regulations.

Article 1. The law regulates conditions and procedures for protection and commercial use of trademarks for products and services.

Article 2. These regulations do not infringe upon the provisions of international agreements.

Article 3. On the basis of international agreements and the principle of reciprocity, foreign natural and legal persons benefit from these provisions.

Article 4. 1. According to law, a trademark may be any sign that distinguishes the goods or services of a given firm from the same goods or services of other firms.

2. In particular, a trademark may be an expression, drawing, ornament, color pattern, sculptural form, melody or any other sound signal or a combination of these elements.

Article 5. Wherever the law speaks of:

- 1) firm, it is understood to mean a natural or legal person authorized to conduct economic activity in the area of production, commerce or services;
- 2) products, it is understood as also meaning services;
- 3) trademarks, it is also understood to mean trademarks for services.

## Chapter 2. Registration of Trademarks

Article 6. 1. A trademark may be registered on behalf of a firm and only for products that are the object of its economic activity.

2. The registration of a trademark for certain products does not exclude registration of other trademarks for the same business for products of the same or another type that are the object of its activity.

3. Registration of a trademark does not exclude registration of the same trademark by the same firm for other products that are the object of its activity.

Article 7. 1. A sign that is supposed to sufficiently distinguish a product under normal conditions of commerce may be registered as a trademark.

2. A mark does not adequately distinguish a product if it is only a generic name of a product or only indicates the properties, quality, number, amount, mass, price, use, method, time or any other such designation without giving sufficient basis for distinguishing the origin of the product.

Article 8. A trademark cannot be registered if:

- 1) it does not conform to law or principles of social conduct,
- 2) violates the personal or property rights of any third parties,
- 3) contains false information,
- 4) contains in full or part the name of the Polish People's Republic or its symbols, emblem, colors or hymn, the symbol of the Polish Armed Forces or the state symbol of quality and safety,
- 5) contains the name or coat of arms of a Polish province, city or community, a reproduction of any Polish medal, award, badges of honor or military badges; if justifiable, such a sign may be registered if agreed to by the responsible state organ or organization,
- 6) contains in part or full the name or symbols (coat of arms, flag, emblem) of a state which is a member of the Paris Union for Protection of Industrial Property [probable], the name or symbols in part or full of any international government organization whose members one or more states belonging to the Paris Union or the Olympic symbol if the user of such a trademark cannot prove that he is authorized to commercially use this sign.

Article 9. 1. A trademark for products of the same type cannot be registered if:

- 1) the trademark is similar enough to the registered trademark of another firm to mislead under normal conditions a purchaser as to the true origin of the product,
  - 2) the trademark is similar enough to the well-known in Poland registered trademark of another firm to mislead under normal conditions a purchaser as to the true origin of the product,
  - 3) the trademark is similar to one previously registered in Poland but less than three years has passed from the date of application to the latter or the date of application for registration for the similar trademark by another firm,
  - 4) the trademark is the protected name of a plant species,
  - 5) the trademark reproduces an officially recognized stamp, seal or symbol of guarantee and the user cannot show authorization to use it.
2. A trademark cannot be registered if it contains elements of a geographical nature or other such elements indicating a member nation of the Paris Union for Protection of Industrial Property or a region or locality of such a state for products that do not originate from that territory if the use of

such a trademark may mislead purchasers as to the origin of the product. This provision is in accordance with international agreement.

### Chapter 3. The Formation and Substance of the Law on Trademark Registration

Article 10. 1. A trademark is protected by its registration.

2. A certificate of protection is issued for a trademark.

3. The Patent Bureau of the Polish People's Republic, hereafter referred to as "Patent Bureau" is responsible for the registration of trademarks and the issuance of certificates of protection.

Article 11. According to Article 12, the right to register a trademark is determined according to the actual date at which this trademark is submitted for registration by the Patent Bureau.

Article 12. 1. The natural or legal personage of a state which is a member nation of the Paris Convention for Protection of Industrial Property as well as the natural or legal personage of another state which operates, maintains its headquarters or conducts a real and serious industrial firm in a member nation of the Paris Union has the right to register its trademark in the Polish People's Republic:

1) according to the date of earlier actual submission of this trademark for registration of specific products in a Paris Union member nation if the submission of this trademark for registration by the Patent Bureau for these same products occurs within six months of this date or

2) according to the date of earlier presentation of products denoted by this mark in a public exhibition in the Polish People's Republic or a Paris Union member nation if the submission for registration of this same trademark by the Patent Bureau for these same products occurs within six months of this date.

2. Precedence may be transferred to another entity.

3. At the request of or in agreement with the responsible state minister, the director of the designates public displays and the conditions for the presentation of a product represented by a trademark. If these conditions are met, precedence is conferred in accordance with Paragraph 1, Section 2.

Article 13. 1. A firm on behalf of which a trademark has been registered acquires exclusive rights to commercially use that trademark anywhere in Poland to represent the products covered by registration.

2. The use of a trademark means the placing of this trademark on products covered by this registration or on their packaging, the introduction of products so marked into commerce, the setting of the trademark on documents connected with the introduction of the products to commerce or the use of that trademark for advertisement in the Polish mass media.

3. Registered trademark rights last ten years from the date of correct submission of this trademark to the Patent Bureau. Protection of the trademark may be extended on the holder's registration of it for another ten years.

4. The holder of the trademark may indicate that his trademark has been registered by setting the circled letter R next to the trademark.

Article 14. 1. Protection of a trademark for specific products does not exclude the possibility of registration or use of a similar trademark by another firm when this mark includes the designation of the firm, name, emblem or family name of the firm's owner as long as this does not mislead purchasers as to the origin of the product.

2. According to paragraph 1, the holder of a trademark may demand that the user of the mark or anyone submitting a mark for registration make the necessary changes to that trademark to eliminate any possibility that a purchaser might be misled as to the origin of products.

3. In the case of Paragraph 1, the provisions of Article 9, Paragraph 1, Section 3 do not apply.

Article 15. 1. The right to registration of a trademark can be sold.

2. An agreement to transfer registered trademark rights must be in written form with a certified date.

3. An agreement to transfer registered trademark rights becomes effective for third parties from the date of registration of the trademarks.

Article 16. 1. The transfer of registered trademark rights without any transfer of the firm in whole or part may occur only if there is no possibility that purchasers might be misled as to the origin of products.

2. The transfer of right to register a trademark without transfer of the firm in whole or part may not occur if the seller registers other similar other similar trademarks for products of the same type.

Article 17. 1. The holder of a trademark registration may license another firm to use the mark for products covered by the registration.

2. If the license agreement does not state otherwise, the holder of the license has the right to use the trademark to the same extent as the holder of the registered trademark.

3. A licensing agreement must be in written form. The provisions of Article 15, Paragraph 3 apply.

Article 18. The Civil Code's provisions on responsibility for legal defects in the sale of a product apply to both the seller and the licensor of a trademark.

Chapter 4. Protection of the Right to Registration of a Trademark and the Right to Use a Well-Known Trademark.

Article 19. Anyone illegally using a registered trademark or mark similar to a registered trademark in a manner that can mislead purchasers to the origin of products is subject to the regulations of this chapter.

Article 20. 1. The holder of a registered trademark may demand the discontinuance of activities that violate or can violate his right of trademark.

2. The holder of a registered trademark may on general principles also demand reparations for damages, the surrender of profits from the illegal use of his trademark and the making of the necessary announcement.

3. In cases of violation of trademark rights, a court of arbitration commission may also pronounce the taking of products, packaging, and other objects furnished with a trademark similar to a registered trademark as well as the means used to advertise and denote these products to protect claims to remove these marks before the commercial introduction of these products and to make their advertisement impossible.

4. Claims of the violation of the rights of trademark are prescribed within three years. This includes claims between socialized firms.

Article 21. 1. The claims considered in Article 20 entitle the party authorized to use a registered trademark from the date of notification of the person using the trademark about the completed submission of this mark for registration.

2. The claims defined in Article 20 can be entered once the trademark has been registered.

Article 22. 1. The holder of a license is responsible for notifying the party entitled to use a registered trademark of the actions of third persons violating the registered trademark rights.

2. The party authorized by license has the right to enter the claims prescribed in Article 20.

Article 23. Everyone who has a legal interest in this may demand that the Patent Bureau determine in a dispute between a registered trademark and one that is or will be used that there is no probability that there will occur a trademark violation of and to make a decision between a registered trademark.

Article 24. 1. The user of a trademark well known in the Polish People's Republic may, if this mark is not registered, demand:

1) annulment of registration rights if the provisions of Article 9, Paragraph 1, Section 2 are violated,

2) the discontinuance of the use of this mark or a similar one by other firms for the same type of products if this use can mislead purchasers as to the origin of those products.

2. The user of a well known trademark may enter the claims specified in Paragraph 1 within a period of five years from the date of registration of this or a similar trademark or from the date of use of this or a similar trademark by other firms, whichever date is last.

3. At the end of the period stated in Paragraph 2, the user of a well known trademark may only demand that necessary changes be made to exclude the possibility that purchasers might be misled as to the origin of the products.

4. If the person violating the rights of a trademark well known in the Polish People's Republic has acted in bad faith, claims may also be made once five years have lapsed.

#### Chapter 5. The Expiration and Annulment of Trademark Registration Rights

Article 25. Trademark registration rights may expire:

- 1) on the lapse of the protection period,
- 2) the abdication of rights by the holder of the registered trademark,
- 3) if the trademark is not used,
- 4) the trademark loses the necessary distinguishing marks,
- 5) the holder of the registered trademark discontinues economic activity.

Article 26. In cases stated in Article 25, Sections 2-5, a decision on the expiration of registered trademark rights is made by the Patent Bureau.

Article 27. The holder of a registered trademark may abdicate his rights in part or full by making a written announcement to the Patent Bureau. Before these rights are abdicated, the written agreement of persons whose rights are written into the register of trademarks is required if the abdication of registered trademark rights could be harmful to their interests.

Article 28. 1. Trademark registration rights expire if the holder has not used this trademark in the Polish People's Republic for the last three successive years.

2. If the registered trademark for different products is used only for one or some of those products, the registered trademark rights expires only for the products for which that trademark has not been used.

3. Registered trademark rights do not expire if the holder can demonstrate that there were good reasons for which he could not use the trademark.

4. The responsibility for showing the use of a trademark or the existence of reasons for nonuse rests with the holder.

Article 29. Registered trademark rights may be annulled in full or part if the legal conditions for registration stated in the provisions of Articles 4, 6-9 and 32 are not met.

Article 30. 1. Anyone with a legal interest in the matter may request the expiration or annulment of registered trademark rights.

2. The General prosecutor of the Polish People's Republic or the director of the Patent Office may in the public interest request the expiration or annulment of registered trademark rights or intervene in ongoing proceedings on the matter.

3. The expiration or annulment of registered trademark rights is entered into the trademark register.

Article 31. A request for expiration or annulment of registered trademark rights can be made within five years of the date of registration. If this period has lapsed, the request can be made only if the holder has registered the trademark in bad faith.

#### Chapter 6. Shared Trademarks

Article 32. An organization created to represent the interests of firms operating within the territory of the Polish People's Republic or one of the member-states of the Paris Union for Protection of Industrial Property which does not exist in violation of the law of the state in which it functions may acquire registration of a shared trademark, hereafter known as a "shared mark".

Article 33. 1. The principle for commercial use of a shared mark by an organization as stated in Article 32 as well as its member firms is defined by regulations established by this organization.

2. The regulation mentioned in Paragraph 1 should specifically state the manner in which this mark is to be used, the shared properties of the products to be covered by this mark, the principles for control of these properties, the consequences of violation of these regulations and a list of firms entitled to use this mark.

3. A shared mark may be registered once the regulations mentioned in Paragraph 1 are submitted to the register.

Article 34. 1. If shared registered trademark rights are violated with regard to certain products, the right to enter claims is given to the organization for which this mark was registered unless that organization's member firms are also entitled to enter claims in accordance with the regulations on the shared mark.

2. A firm authorized to enter the claims mentioned in Paragraph 1 may do so after notifying the organization of the violation of the shared registered

trademark rights the organization has not within two months of being notified made use of its authorization to enter claims.

Article 35. Shared registered trademark rights may be transferred only on behalf of the organization stated in Article 32.

Article 36. If shared registered trademark rights expire for specific products, the registration of a mark similar to the shared mark for products of the same type by other parties is not permitted if this is done within five years of the date of expiration of the shared registered trademark rights.

#### Chapter 7. Procedure, Registers, Charges

Article 37. The regulations of the Code of Administrative Procedure are used by the Patent Bureau unless the provisions of law state otherwise.

Article 38. The deadline for requesting the revocation of a Patent Bureau decision is two months and for entering a complaint on a decision by this bureau it is one month from the date on which the party was notified of the decision.

Article 39. 1. A registered trademark is considered to be announced on the date on which it was submitted to the Patent Bureau or mailed in Poland to the Patent Bureau.

2. An application for the registration of a trademark must include the name of the person submitting it and the products to be covered by that trademark.

3. Precedence for trademarks submitted on the same day is determined according to the sequence in which they were submitted to the Patent Bureau.

4. The director of the Patent Bureau determines the requirements that must be met by correctly drawn applications and determines the classification of products covered by the trademark.

Article 40. 1. Only one trademark may be submitted per application.

2. If more than one trademark is submitted per application, the Patent Bureau will consider only the first trademark and at the same time notify the party submitting the application to submit within three months separate applications for the remaining trademarks. The remaining applications will be dated from the date on which the first application was submitted. If the remaining applications are not submitted, the Patent Bureau discontinues its proceedings on this matter.

Article 41. During its examination of the application, the Patent Bureau orders the party submitting the application to correct mistakes or eliminate flaws in the application and documents within three months or the proceedings will be discontinued. At the request of the party submitting the application, this period may be extended for another three months but only in justifiable

cases it may be furthermore extended for two more three-month periods on payment of the necessary charges.

Article 42. Once the application is submitted, the owning party may not change the trademark nor broaden the list of products covered by this trademark.

Article 43. 1. During proceedings, the Patent Bureau determines whether the submitted trademark meets the requirements of law or violates the rights of third parties.

2. If the submitted trademark does not meet the requirements of law or violates the rights of a third party, the Patent Office notifies the party submitting the trademark of this as well as persons whose rights might be violated summons them to reply within three months.

3. The Patent Office notifies the party submitting the trademark of the position taken by third parties and summons that response be given within three months.

4. If response is not given within the period stated in Paragraph 3, the Patent Office announces its refusal to register the trademark.

5. The periods stated in Paragraphs 2 and 3 may be extended at the request of the party submitting the trademark according to the principle stated in Article 41.

Article 44. 1. If it is determined that there is no obstruction to the registration of a trademark and the charges stated in Article 55 are paid, the Patent Office announces its decision to register the trademark and enters it into the register mentioned in Article 54. In all other cases, it announces its refusal to register the trademark.

2. Once the trademark is entered into the register, the Patent Office issues the holder of the trademark a certificate of protection.

Article 45. 1. A trademark may be submitted from abroad for registration after the Patent Office is notified.

2. By decree, the Council of Ministers determines the manner in which foreign trademarks are to be submitted.

Article 46. A registered trademark may not be changed nor can the list of products covered by that trademark be broadened.

Article 47. 1. A request for extension of registered trademark rights for another ten years is submitted no earlier than one year before the expiration of the first period.

2. In justifiable cases, the request may also be submitted within six months of the expiration of the protection period.

3. The holder of a trademark requesting an extension of registered trademark rights is required to prove that he has used this trademark over the period stated by law. If he cannot show that he has used the trademark for this period or give justifiable reasons for which he has not used it, the Patent office announces its decision to reject the extension of registered trademark rights and allow them to expire.

4. The extension or refusal to extend trademark rights is entered into the trademark register.

Article 48. The director of the Patent Bureau determines the requirements that must be met by requests submitted to the Patent Bureau on cases concerning registered trademarks.

Article 49. 1. During dispute proceedings, the Patent Bureau considers the following matters:

1) whether there is any similarity between a registered trademark and one to be used (Article 23),

2) recognizes the expiration of a registered trademark if it has lost its distinguishable features or has ceased to be used by the holder (Article 25, Sections 4 and 5),

3) Annulment of registered trademark rights due to unfulfillment of legal conditions of registration (Article 29) or the violation of a trademark well known in Poland (Article 24, Paragraph 1).

2. The Patent Bureau pronounces on matters mentioned in Paragraph 1 in a manner and according to principles defined in the provisions of the law of inventions.

Article 50. A revocation commission established in accordance with the provisions of the law on inventions and hereafter referred to as the "Revocation Commission" considers revocation of decisions made by the Patent Bureau.

Article 51. A party with permanent residence or headquarters abroad may act in proceedings before the Patent Bureau or the Revocation Commission only through individuals authorized by the minister of foreign trade.

Article 52. 1. The director of the Patent Bureau, the first chairman of the Supreme Court, the general prosecutor of the Polish People's Republic and the minister of justice may make an extraordinary revision of any legally-binding decision or decree made by the Patent Bureau or Revocation Commission or finishing proceedings and [illegible word] violators of trademark rights.

2. An extraordinary revision is made according to the regulations of the Civil Proceedings Code.

Article 53. Claims defined in Article 20 and other civil legal claims on trademarks not the responsibility of the Patent Bureau are settled through arbitration or court proceedings.

Article 54. 1. The Patent Bureau keeps a register for the purpose of recording all trademarks and shared trademarks.

2. Trademark registers are public records. Anyone with a legal interest in them will receive a copy, excerpt or certificate of an entry once the necessary charge has been paid.

3. It is assumed that everyone knows the contents of entries to the register of trademarks.

4. The director of the patent Bureau defines the principles for the keeping of registers, the conditions and manner in which entries are made and the availability of registers to scrutiny as well as the issuance of copies, excerpts or certificates of entries.

Article 55. 1. Charges are made for proceedings before the Patent Bureau or the Revocation Commission.

2. By means of decree, the Council of Ministers determines the principles for the discharge, amount and time of payments.

Article 56. The Patent Bureau announces within the "Patent Bureau News":

- 1) the registration of trademarks,
- 2) extension of registered trademark rights,
- 3) the sale of registered trademark rights,
- 4) the conferring of licenses,
- 5) expiration of registered trademark rights,
- 6) annulment of registered trademark rights,
- 7) changes about a holder of registered trademark rights,
- 8) changes in list of products.

#### Chapter 8. Criminal Provisions

Article 57. 1. Whoever places a registered trademark to which he is not entitled on products or services for sale is subject to one year of imprisonment, one year of probation or a fine.

2. In organizations, the responsibility stated in Paragraph 1 is carried by the director of that organization or whoever this organization has named responsible for the sale of products of services.

3. Prosecution is undertaken at the request of the plaintiff.

#### Chapter 9. Changes in Regulations, Temporary and Final Regulations

Article 58. The 31 May 1962 law on the Patent Bureau of the Polish People's Republic (DZIENNIK USTAW, No 33, item 157), Article 6 is no longer valid.

Article 59. Registered trademark rights existing on the date on which this law becomes effective are to remain valid.

Article 60. 1. Subject to Paragraph 2, previous regulations are applied to the legal relations that came into being in connection with registration of trademarks before the date on which this law comes into effect.

2. On the date that this law comes into effect, its provisions will be used to determine:

- 1) legal actions on trademarks made after this date,
- 2) the consequences stated in Article 28 for not using a trademark.

Article 61. Proceedings begun before the day on which this law comes into effect are carried out according to this law.

Article 62. The 28 March 1963 law on trademarks is no longer valid (DZIENNIK USTAW, No 14, item 73).

Article 63. This law becomes effective on 1 July 1985.

Chairman of the Council of State H. Jablonski  
Secretary of the Council of State J. Szymanek

12261  
CSG:2600/774

6 June 1985

POLAND

## AGRICULTURAL POLICY, DEVELOPMENT OF PRIVATE FARMS DISCUSSED

Warsaw WIES WSPOLCZESNA in Polish No 1, Jan 85 pp 19-29

[Article by Franciszek Tomczak: "The Present and Future of Polish Peasants"]

[Text] Motto 1: Millions of people will never listen to the party if what it says does not agree with what their own experience has taught them. V. Lenin, "Dziela" [Works], vol XXIV, p 522.

Motto 2: The Polish People's Republic...is full of concern individual family farms of working peasants and guarantees the continuing existence of these farms. Constitution of the Polish People's Republic, Article 15, Section 3.

In 1984, the inspiration for the writing of a number of observations on the unusually critical problems of agricultural policy in Poland were articles published at that time by Henryk Cholaj and Lt Konrad Bajan.<sup>1</sup> In both articles, we find opinions that thoroughly negate the achievement and experiences of the present stage in the development of agriculture, rural life and peasant farming. This criticism is especially levelled at family farming and its character and attributes. The authors claimed that family farming is not a permanent or lasting element of the socialist system. With reference to this, I would like to make a few of my own observations without going into any further polemics.

## On the Continuation of Individual Farms and the Views of Agricultural Economists

Attacking the views expressed by the Polish Academy of Sciences' Committee of Agricultural Economics, H. Cholaj wrote: "Recognition of individual peasant farming which is the main representative of contemporary Polish agriculture as a lasting element of the socialist system is a reflection of a mental concept that has been for some time actively and widely presented. Thus, after 1980 in Poland, there has been the unique dogma that noncapitalist individual peasant farms that continue to operate on the principle of private ownership of the means of production are the dominant form of Polish agriculture and a permanent element of socialist economics". Further, he writes: "The idea of the continuation of small peasant farming is an unfortunate statement because impermanence is a particular attribute of this form of farming even though this impermanence is relative for the disappearance of some farms is

accompanied by the coming into being of others and the minds of agricultural economists have been dominated by an antidevelopmental tendency"<sup>2</sup>, and this is obviously supposed to mean the present domination of a neoagrarian orientation.<sup>3</sup>

Regardless of the respective merits of these different views, it is essential here to point out the alleged antidevelopmental and neoagrarian tendencies of agricultural economists. In connection with this, it can only be said that we must in this case deal with the unique differences in the views held by some agricultural economists and representatives of general political economy or farm policy on Polish agriculture.

In distinction to general economics which has been for many years out of touch with the most important problems of Polish life, agricultural economics has also remained in close contact. We are now making the next step: more and more often, the point of departure for analysis, generalization and theoretical reflections is analysis of real and current economic processes in our country. This reality is expressed by the millions of peasant farms in Poland and the millions of people living and working in these farms and rural areas and employed in the entire food and agriculture industry. Practice, needs and diverse experiences have become a source of scientific inspiration. In this regard, farmers represent a pragmatic point of view and procedures. A farmer is a person who walks the land and agricultural economists must be strongly aware of this principle. If they lose touch with this, beautiful theories completely out of touch with reality and needs are spread and often practiced with unquestionable harm to agriculture and society.

The community of agricultural economists, administrators and officials is by its very nature doomed to a narrower point of view. Therefore we find wishful, postulative and instructional aspects in their statements and opinions. After all, the fate of theoreticians does not much depend on how these postulates and opinions are realized. J. Chalasinski called them "the community of paper" which sees the world and the things and people in it quite differently.<sup>4</sup> More and more often, analysis of reality and the opinions of the most interested parties give way to quotes from books produced by this "community of paper".

The intent of the agricultural economists in the Agricultural Economics Committee of PAN [Polish Academy of Sciences] is to act in the immediate interests of rural people, peasants and agriculture because our science and teaching can fulfill their great function only by using the practices, experiences, achievement and the problems of today.

The task of economists and farmers is therefore to find new and creative elements of evolution that are the products of reality, practice and above all the relevant laws directly governing the economic and social life of the modern Polish countryside. It has now not only become possible to but outright necessary to incorporate the peasant economy into the system of the state-run economy, its needs and conditions of growth. This has been found to be possible and fruitful and would create not only new solutions in practice but in theory as well. It would have a positive influence on the theory and practice of contemporary development of the socialist economy. As it has already many times been emphasized, the peasant economy does not conflict with

the development of the socialist economy but is an integral part of it and an important element in the entire national economy.

If we ignore or neglect the principle of the permanence of individual farming, this will lead to acceptance of the spoken or unspoken principle that peasant farming may sometimes be with some effort temporarily tolerated but not desired. Such a principle was established during the accelerated collectivization of the start of the 1950's but elements of this type of thinking became part of the agrarian policy of the second half of the 1970's. This policy was based on the tragic conviction that we would quickly become able to manage without the economic or political support of the peasants. The practices of this period profoundly affected the farmers' conviction of the permanence and prospects for individual farming. This led to an obvious weakening of individual agriculture which in turn was used as the principal argument against this type of farming. The deliberate weakening of peasant farming accelerated the breakdown in production on many farms, pushed an entire generation of youth out of farming and weakened its ability to produce. The deliberate result of that time's agricultural policy was agriculture of a fragmented agrarian structure, poorly-equipped, deprived of a young generation and not very productive and this may never again be regarded as a natural form of individual farming. With obvious harm to the entire economy and the stable and quick socialist development of our country, we have not properly taken advantage of possibilities that have created the process of industrializing the country in order to overcome these weaknesses of peasant farming. Therefore, we continually face these tasks regardless of what we think and how we see the future of Polish agriculture.

The countryside's doubts about its economic future have become the curse of agriculture and the primary factor limiting any positive results from modern Polish agriculture. Growing discussion of the historical and therefore the temporary and restricted character of peasant farming only accelerates this process. The recognition of the permanence of family farming in a socialist economy is in this situation a creative development of the theory and practice of modern socialist thought. It attests to the understanding of the fundamental principle that the farmer is a worker. Wherever he goes and whatever he does, his feet touch the earth. They give him a feeling for reality, union with nature, peace and concern, industry and honesty, an appreciation of tradition and a longing for progress. None of these traits conflict with the present and future of socialism.

It must be openly said that after 40 years of the building of socialism in our country and the changes that have been brought about in that time, Polish peasants have shown by their work, actions and behavior that they cannot be treated as the bastard child of socialism or stigmatized and sentenced to useless and wasteful work while at the same time their prospects for growth are bureaucratically limited.

The entire experience gained by the Polish People's Republic has shown the destructive influence of the tendency shown for decades by an agricultural policy for the reconstruction of agriculture which was understood as the practice of liquidating individual peasant farming. Agriculture is supposed to feed the nation rather than realize theories that have not been adapted to our present reality and problems. Practice has most clearly and completely verified all of our theoretical premises and has shown us the best solutions: it has become necessary to recognize family farming and the peasant class as lasting elements of socialism. "It is not only now that we have come to know that land and family farming are what determine the very special character of a farmer's work, his association with nature and the character of family and neighborly relations. These are very profoundly social relations and go far beyond the affairs of a single farm. These are not the affairs of private ownership and private property. The work of a farmer and today's model of his farming are so strongly connected with public goals, the public distribution of wealth and the organization of work that the doctrinal barriers constantly erected by ardent dogmatists between the so-called socialized socialist sector and the family sector have become a misunderstanding. These problems do not concern production alone but also project themselves upon the entire system of social relations and the substance of the worker-peasant alliance which in practice was equal partnership only in slogans which were contradicted by the life. Agricultural work in one's own farm may and should become the foundation for the material abundance of peasant families and a source of public satisfaction and recognition."<sup>5</sup>

The present stage of the formation of the relationship between the creators and the realizers of agricultural policy has shown that there have been situations and conditions that caused conflicting rather than united action of both sides. It is therefore true that farmers have the right and duty to demand that agricultural policy and its theorists at least:

- Unconditionally treat farms as production centers and respect their material resources and productive capacities;

- Support all actions and endeavors to strengthen the productive possibilities of agriculture and their scientific, technological and cultural progress, etc.;

- Give prominent assistance in creating the necessary external factors that intensify production such as the market, supply, prices, economic policy, etc.

What can be "antidevelopment" or "neoagrarian" about these demands and their realization, the current program for development adopted in official state and party documents and the current possibilities and conditions for development of this branch of the economy? After 40 years of the growth of the socialist state and the enormous contribution agriculture has made to this growth, the government policy of supporting family agriculture has become recognized as "neoagrarianism". Comments on such an interpretation of the continuation of individual farming have become superfluous and clearly ineffective.

## On Agricultural Strategy And Policy

Everything that is presently decisive in agricultural policy is unquestionably important to all of our continuing strategy for development of agriculture and our country. The basic strategic question about peasant farming is very simple and it must be posed clearly and sincerely: does peasant farming have a place in the socialist system? All of our experience and needs show that there is only one answer: this form of farming does not contradict the basic principles of a socialist economy and we can therefore formulate the principle that it must continue, grow and enjoy the prospects of further development.

For the second time let us say<sup>6</sup>, our experience to date regarded as a source of knowledge and inspiration for further action show that agriculture is too important a sector of the national economy and too much depends on it to take a voluntaristic and arbitrary policy toward it, to make and accelerate decisions that are in any way harmful or that might reduce its productive potential, to violate the laws of property or undermine the value and the results of peasant work and farming. We have already seen enough proof that we have not managed agriculture well and that we are guided by assumptions that have disrupted and continue to disrupt a feeling of good management and good results. No one and nothing can take the place in Poland of good management, wise administration and use of available resources and production possibilities. Peasant farming has traditionally functioned according to certain principles of management that are of good general value to more than agriculture alone. The experiences and needs of economic reform have also clearly confirmed this. For that reason, if we neglect commonly accepted and proven principles of agricultural policy, this is not only harmful to the current results of agriculture but also influences the formulation of rational principles for a strategy of development of the nation and agriculture that are the product not of dogma and the past but of the social and economic principles of national development, the use of its potential and the realization of a program accepted by peasants and in accordance with the needs and interests of society.

Of strategy, K. Bajan writes: "We must be able to define a strategic goal for agriculture and rural life. At the same time, to reach that goal we must use the proper tactics. Under our conditions, the strategic goal of socialist transformation of agriculture may be realized by the use of wise tactics, the essence of which is matching growth in farm production with socialist changes.<sup>7</sup> Therefore, the question arises of whether the strategic goal of agriculture and its policy is to feed the nation and to solve the problem of the nation's food self-sufficiency. As this problem is resolved, so too will be the problems of production, standard of living and changes in the structure of agriculture. Therefore, it must be repeated that the adoption of the double goal of agricultural policy, i.e. the transformation and growth of production and even more so a single strategy of transforming agriculture through socialization is erroneous. The transformation of agriculture may be a source and means of achieving certain strategic goals but is not a goal in itself. The entire theoretical and practical difficulty of our present agricultural policy is total misunderstanding in the formulation of its goals and this goal is supposed to be the nation's self-sufficiency in food. This has long been seen by others and we continue to be unable to understand the simplest things.

It is understandable that the entire strategy and the approach to peasant agriculture should above all support the strategic goals of a socialist society. If these goals are to be economically formulated as management that is more efficient and productive than that of other societies, then the same must also apply to agricultural management and peasant agriculture. It can be said that at the present stage of Poland's social and economic development, the main goal of agricultural management should be to produce the most food per unit of land.

It is also understandable that the individual farmer does not feel comfortable knowing that the declared historical goal of socialism is the abolition of private ownership of the means of production. In view of this, is there any way that peasants can feel hopeful for the future? The primary condition for the integration of peasant farming with the needs and development of the country is a feeling of security for peasant farmers. Both the experience of the building of socialism with preservation of private property as well as the pragmatic needs of social development can assure peasant farming a hopeful future.

With regard to peasant agriculture, we can therefore formulate the following principle: every form of farming that we now have should last as long as it remains effective. Peasant farming has shown its effectiveness and fitness for the realization of individual and public goals. This form of farming has been found to be necessary to all of society because it has fed the nation, has presented no problems to development and management and reliable in terms of both production and organization. Established during the entire postwar period, the present form of production and management in agriculture has proven itself both in its suitability to general social needs as well as its efficiency. It seems that this view has been confirmed in both theory and practice. It is understandable that if production conditions, technology and the effectiveness of management change radically, there will be objective preconditions by which these views can be verified.

#### On Individual Ownership and the Evolution of Peasant Farming

Textbooks on agrarian policy show how much misunderstanding surrounds peasant farming. K. Bajan teaches that individual farming has taken two forms in Poland: small-scale and petty-capitalist. "Private ownership of the means of production forms the basis for peasant farming. This fact has decided that peasant farming in a socialist system supports old capitalist relationships".<sup>8</sup> In a new edition of this textbook prepared after the shocking events of 1980 and 1981, this statement was repeated as if no understanding at all had been gained from this experience: "Private ownership of the means of production forms the basis for peasant farming. This fact has decided that peasant farming in a socialist system supports old capitalist relationships even though it has been adapted to the reigning socialist system. The mechanisms of the market grow into the basic tools that determine the functioning of individual farming".<sup>9</sup> In another place, it is stated that with regard to its substance, this type of agriculture, that is, peasant agriculture in Poland, is close to the petty-capitalist method of production and that many of the economic laws inherent to capitalism are found here. This is also responsible for class conflicts in rural areas. "They manifest themselves in different ways: the exploitation of labor has not been totally liquidated, great

economic differences continue and there is a concentration of capital".<sup>10</sup> The new edition adds that: "Due to the historical impotence of its forms, peasant farming is an old formation that cannot meet the requirements of our presently developing systems."<sup>11</sup>

K. Duczkowska-Malysz is right about the fundamental misunderstandings that have taken place around the nature of peasant farming. It is enough to point out the traits that by their substance (rather than forms) distinguish capitalist farming from small-scale farming and the theory of subsumption (as if the small farms sector in Poland were not subordinated to the state). K. Duczkowska-malysz writes: "It is interesting which, in K. Bajan's opinion, economic laws make these two types similar to one another: the law of added value, the concentration and centralization of capital or even the law of public production and private ownership?"<sup>12</sup> For my part, I would add the question of how is it that we in a socialist state continually look for capitalism in such an important sector of the national economy and associate everything that happens there with capitalism or capitalist tendencies? What do millions of individual Polish peasants earning less than average or almost average wages in socialized sectors have in common with capitalism? How can the call to fight capitalist tendencies be reconciled to the theory and declarations of the socialist state and the urgently important principle of development of all sectors of the national economy? This is the secret held by those who share these views.<sup>13</sup>

The changes that have occurred and continue to take place in the situation of peasants and rural families have all the signs of being a great revolution in society, production and tradition. Overcoming the demographic obstruction to agriculture, the possibility of finding work outside of agriculture, technological changes in production, new possibilities in life, work and advance of agricultural families are a direct illustration of these changes. This is a great victory and opportunity for all of peasant society. However, this opportunity has been only partly exploited for aside from the progress, changes and advancement, we have to deal with signs of regression, slowness of deterioration in some farms, rural areas or even regions. The transition from traditional systems to the modern ones has been difficult and painful.

Calling for prudence and courage in the formulation of opinions and laws on peasant farming and the treatment of its growth and changes as a natural process, we strongly emphasize the need to study preceding changes in agriculture both in Poland and abroad in order to determine what can be adapted to our circumstances, possibilities and experience. Without dwelling any more on controversial social and political problems, we emphasize essential economic phenomena above all others. From this point of view, the best approach is to make enough use of existing resources and possibilities of peasant agriculture so that the needs and interests of peasants and all of the rest of society can be realized in full. Resources and factors of production that can be used, should be used in accordance with the principles of good management. For general social reasons, we must now totally reject any procedure or activity that would reduce production or extensify the agricultural economy. Realization of this principle may protect against decisions and actions that are frivolous, rash and not fully thought out.

The building of an agricultural economy takes many years and is brought about by the work, efforts and resources of the farmer. The farmer creates his place of work carefully and arduously over a long period of time. The fruits

of this work are often gathered not by he who sowed them but by the next generation. The farm is his place of work, personal achievement and achievement as a family. This is not industry and here the state does not use its resources to build a place of work that is taken by the worker and later left with no great amount of emotion. The farmer does everything alone at his own risk. For that reason, all changes and recommendations made by policy must be well thought out. They must be prudent and evolutionary rather than revolutionary. The farmer devotes his life to his farm and it in turn represents his entire achievement and is at the same time an achievement of society. This means that it cannot be destroyed thoughtlessly. Bureaucratic principles, theory and practice cannot form a professorial or urban system which the peasant cannot make head or tail of and understand or which he perceives to be a propaganda clutter where one recommendation or directive contradicts the other.

The need for development and prudence in all decisions and moves affecting agriculture also comes from the fact that the farm is not only the work place of the farmer and functions as such, i.e. that it provides his work and means of support. This also has certain consequences on a farmer's management and lifestyle. This unity does not take the same form in other areas of life: it influences both the management process (for example, it provides and determines direct and continuous contact with the farm) and the lifestyle. This is sometimes referred to as a "slave-like" attachment to the farm.

The process of evolution changes not only the size and types of peasant farms but also the conditions of their functioning. The idea that farms can be self-supporting gives rise to the feeling that they are independent of market conditions and crises, that peasant families are self-sufficient, producing and consuming their own food in peace. Such an understanding is an illusion. Every family farm is in a process of growth and is striving to consolidate itself and improve its output and income. A farm is so bound up with and dependent on external conditions such as market and supply that any weakening in these areas can bring about its downfall.

The connection between the success of a farm and that of the family means that the farmer is in a real sense dependent on his place of work and that he must think of its present and future. This connection does not act in terms of individuals but in those of generations and therefore finds its immediate expression in decisions concerning accumulation and investment. Thanks to these decisions, the farm may continue and grow even under conditions of extreme adversity. Aside from the farmer, who thinks about his place of work and its development with regard to the next generation?

The most important attribute of family agriculture is the character of peasant ownership and all economic and social consequences of the character of personal ownership of production. Regardless of the declared forms of its defense, this ownership constantly undergoes various types of attacks. The form of these attacks ranges from general theories that in one way or another explain the unfitness, inferiority or the nonsocialist and nonmodern character

of peasant ownership, direct aggression in which peasant lands are illegally and unpardonably treated, meandering and ambiguous agricultural policy to the acceleration of agricultural transformation in a way harmful to the interests of peasants and other workers.

At the same time, the peasant farm is the cocreator and ally of the state and no one should treat it as an enemy, a hindrance to growth or as an old system of production that needs to be eliminated. The theory of the longest possible existence of an individual farming system within a growing socialist economy is based not only on the finding that these systems are not antagonistic to one another but also that under certain circumstances, they may cooperate with each other in a planned manner. The proper coexistence of collective and peasant farms does not mean that the latter is given the conditions it needs for the fastest possible growth but that a quick growth of production in individual agriculture will result in its greater integration with the entire economy. The fastest possible growth in agricultural must, as the experiences of all countries have shown, be followed by expansion and strengthening of the economic ties between agriculture and the national economy and this in turn reduces the significance of any barrier posed by the individual nature of agriculture to the process of streamlining agriculture. It is not questioned that integrative processes to a large degree increase the economic efficiency and reduce the isolation of peasant farms by adapting their economics and management system to the conditions created by the development of the entire national economy.

Some say that by stressing the personal goals and interests of farmers, we somehow advocate nonsocialist attitudes. At the same time, the formulation of these goals and interests has been especially important since the time of Adam Smith and should not be attributed exclusively to the capitalist order and relations. If the management process in socialism should be and is supposed to be a creative and efficient process, it should make use of the experience of all of the preceding economic development of the world. Generalization and use of these experiences has become an important method of improving the effectiveness of the whole economy. and these experiences show us that realization of personal goals and interests is one of the most deeply set attributes of human societies. We must therefore seek positive solutions to the developmental dilemmas of peasant agriculture in our country.

Regardless of the difficulties that peasants will encounter in the coming years, two things seem certain: one, that there is nothing that would indicate that the Polish peasant's attachment to traditional family farming will be reduced and two, the striving to achieve cheaper and more streamlined production will certainly increase. This means realization of the principle that the development of socialist relations in Poland will be correlated with that of good, enlightened family agriculture and that theoretical uncertainty and misunderstanding will cease to be a hindrance to the expansion and growth of individual family farming in our country.

The meanderings and shortcomings of economic and agricultural policy of the past decades as well as their practical realization have led to the birth of two types of lines: food lines in cities and lines for the means of production in rural areas. Economic and agricultural policy will always be symbols of impotence and bureaucratic bungling as long as such lines continue to exist.

There were and are only the result of this policy and it is only this policy that can eliminate them. The time spent by people in our country standing in these lines is sad and unproductive. The observations I have made here point out the possibilities that economic and agricultural policy have to manage and use the productive and social potential of peasant agriculture and industry to liquidate these lines.

#### FOOTNOTES

1. H. Cholaj, "Teoretyczna spuścizna K. Marksa a charakter prostej produkcji towarowej" [The Theoretical Heritage Of K. Marx And The Character Of Simple Commercial Production], *EKONOMISTA*, No 5-6/1984; K. Bajan, "Polityka rolna w PRL" [Agricultural Policy In The Polish People's Republic], third edition, Warsaw, PWE, 1984.
2. H. Cholaj, *Ibid*, pp 738, 742, 743.
3. *Ibid*, p 760. Both H. Cholaj and K. Bajan have often written about the private ownership and private nature of peasant farms. M. Blazejczyk has very appropriately pointed out that this is a characteristic terminology pointed from the political economics of capitalism to our literature on agricultural policy. Pointing out the changes that have taken place in Poland, M. Blazejczyk writes: "As the result of these changes, we cannot identify peasant agricultural individual ownership with private ownership of farms and therefore define peasant farming as "private agriculture"(and therefore associate it with capitalism -- author) as many still do despite the fact that our constitution and legislation for the last 20 years have rejected the category of private ownership and use the terms of individual ownership (with regard to the means of production) and personal ownership (with regards to the means of consumption)". See M. Blazejczyk's "Rodzinne gospodarstwo rolne w ustroju społeczno-gospodarczym PRL" [Family farming in the social and economic system of the Polish People's Republic], *NOWE ROLNICTWO*, No 7-8/1984.
4. J. Chalasinski, "Drogi awansu społecznego robotnika" [Ways to worker social advancement], *LSW*, Warsaw, 1959, p 34.
5. W. Swirgon, "Referat wygłoszony na I Krajowym Zjeździe Związku Młodzieży Wiejskiej" [Report to the I National Congress of the Rural Youth Union] in "I Krajowy zjazd Związku Młodzieży Wiejskiej" [I National Congress of the Rural Youth Union], Warsaw, 1981, pp 7,8.
6. F. Tomczak, "Reforma rolna 1944 -- refleksje nie tylko historyczne" [The 1944 agricultural reform -- some not only historical reflections], *WIES WSPOLCZESNA* no 7/1984.
7. K. Bajan, *op. cit.*, p 36.
8. K. Bajan, "Polityka rolna" [Agricultural policy], PWE, Warsaw, 1978, p 79.

9. K. Bajan, "Polityka rolna w PRL" [Agricultural policy in the Polish People's Republic], third edition, PWE, Warsaw, 1984, p 86.
10. Ibid, p 107.
11. Ibid, p 104.
12. K. Duczowska-Malysz, "Co to jest polityka rolna?" [What is agricultural policy?], WIES WSPOLCZESNA, no 1/1980.
13. This is documented by the enormous amount of scientific and journalistic literature of 1956-1983. This opinion is also documented by agricultural practice and the meanderings of the growth of agriculture and rural life. In an excellent speech to the XI Plenum of the PZPR Central Committee and the ZSL Supreme Committee, the m'ner Zbigniew Hanf said: "Anyone who says that the peasant does not want to sell but store and spoil is wrong. And whoever looks for enemies of socialism in the countryside and sees the farmer as nothing more than a kulak and speculator is unwise. No comrades! In the Polish countryside, one certainly cannot find any proof of the imperfection fo our system. Such conclusions are made by those who have lost touch with reality, dissatisfied bureaucrats and those for whom the peasant remains a petitioner and who in this manner wish to hide their own lack of competence". See WIES WSPOLCZESNA, No 4/1983.

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CSO: 2600/761

POLAND

PROF MANTEUFFEL'S BOOK ON AGRICULTURE IN REFORM REVIEWED

Warsaw ZAGADNIENIA EKONOMIKI ROLNEJ in Polish No 3, 1985 pp 120-125

[Article by Krzysztof Modzelewski: "Review Of R. Manteuffel's 'Polish Agriculture In Reform'"]

[Text] On the 80th birthday of Prof R. Manteuffel, the People's Cooperative Publishing House has released his newest work titled "Polish Agriculture In Reform". The professor's rich scholarly achievement has been increased by this work on current problems in the development of agriculture and rural life and to a certain extent that of the entire national economy as well.

As the author himself has said, the very title of the book is an intellectual abbreviation. It might seem that we would find in this work an evaluation of the ongoing economic reform in Polish agriculture but aside from a fragment in chapter III on the situation of socialized agriculture (state farms and state cooperative farms) under the new economic and financial conditions, this book is about the need for "reform" in our way of thinking on rural and agricultural matters.

Individual agriculture, which is our country's dominant form, does not need any economic reform. Due to its very nature, individual agriculture has functioned according to the principles inherent to economic reform for as long as it has existed. However, it still remains to be asked whether proper assessment of any and all phenomena taking place in agriculture or rural life and proper use of this knowledge in the policy can be used to guide the development of agriculture. It is only full knowledge of the general principles of the development of agriculture and correct evaluation of the actual state of affairs in agriculture that will make it possible to correctly guide the development of agriculture. Obviously, this is under the condition that the acquired knowledge of agriculture is considered in current economic policy because it is only then that it is certain that the interests of agricultural development agree with those of the general public in the area of the production of agricultural materials.

Thus, there is practically no mention in this book of reform as such but much was said about the need to solve many important rural and agricultural problems. It is also worth emphasizing the fact Prof Manteuffel's analysis covers a period in which we are having to deal with the introduction of

thorough economic reform. "The principles of general national reform also apply to agriculture as one of the chief sectors of the national economy. In this same period after 1980, there was carried out another reform of just agriculture, namely the existing agrarian policy" (page 5).

The author's book convinces us that it is necessary to reform all of the public's thinking about rural life and agriculture. Agriculture and its private sector in particular may not be treated in agricultural reform as anything other than just more sectors of the national economy. Therefore, we cannot accuse farmers of getting rich (p. 107) if their income is the product of honest work (p. 195). Prof Manteuffel writes: "...if anyone envies farmers, then I beg his pardon: the road is open and if he gains the necessary knowledge, he too can become a farmer and work under very favorable conditions" (p. 107).

Prof Manteuffel's book covers a wide range of problems beginning with the function of the socialist state in relation to its citizens, continuing with a presentation of many problems in the development of agriculture and rural life in Poland and concluding with reflections on the culture of life (residence) in the countryside and the ethics of the farmer's profession. Throughout this work, there is a general theoretical train of thought which is often presented in elementary exposition and is intertwined with description of specific situations or comments on the need to solve very specific problems. Some of these problems concern just the period in which this book was written. Sometimes it seems as if it were written in the heat of the moment.

There is a lack of sequence in the book in that it fails to go from broader problems to ever more specific ones and vice versa. I am not at all claiming that this should be one of the principles for writing a scholarly work but most often in this type of work, it is the rule that one does so. The author handles his materials and arguments differently in this book. Aside from the first chapter, "General Problems", which may be seen as an introduction, all of the succeeding chapters were identical in terms of the degree to which their subject matter was specified. The titles of chapters II, III, and IV respectively are "Agriculture As A Sector Of The National Economy", "The Economy And Agricultural Enterprise" and "Commodities Turnover And Social And Professional Matters In Rural Areas". The book is supplemented with a statistical annex.

The very chapter titles should "tell" the reader something because they describe very different problems. For example, chapter II is divided into subchapters titled "Sectors Of Polish Agriculture", "Polish Agriculture Compared To European And World Agriculture", "Agricultural Use Of Land", "Agrarian Structure", "The Economics Of Agriculture" and "The Human Factor In Agriculture". I must add that some of the subchapters also include sections concerning very different problems that often have very little in common. For example, the subchapter "Economics Of Agriculture" contains the following sections: "Equilibrium In Agriculture", "Parity Of Income", "The Division Of Economics From Philanthropy", "Animal Husbandry As The Main Sector Of Polish Agriculture" and "Prices In Agriculture".

<sup>1</sup> It is worth pointing out Prof Manteuffel's very critical attitude toward analyzed statistical data. He writes, for example: "The number of tractors in certain sectors is misleading. The tractors used in socialized agriculture were considerably better than those used by private farmers because they are newer..." (p 48).

The nature and arrangement of this book have tended to make it repetitious to a certain degree. This does not so much mean the repetition of certain sentences or even fragments such as the "the meadow feeds the field" (pp 78, 139) or the definition of farm and enterprise (pp 111, 130) but that of entire sections. For example, the section titled "Prices In Agriculture" is found in its entirety in both chapters II and IV.

The diversity of problems addressed in this work, which along with the statistical annex covers barely 223 pages, makes it impossible to fully examine any single problem in any detail. Most of the problems such as the sections and subchapters "Agronomy", "The Citizen Farmer", "The Priority Of Agriculture", "Income Parity" and "Thrift And Economy" were barely mentioned.

Many of the problems were given original treatment and certain conclusions and propositions were innovatively formulated. For example, the author presented in detail a concept for organizing individual settlement of agricultural land in Poland. The depopulation of entire rural areas in the so-called 'eastern wall', in other words, along the border with the USSR, has given rise to the problem of how to manage abandoned land. In Prof Manteuffel's book, one can find certain recommendations of what must be done so that some might be enticed to settle land previously abandoned by others. For example, "...it is necessary...that the settlers be just married couples. A single individual will never manage, especially under the conditions of settlement" (p 77).

The idea of creating chambers of agriculture in Poland was very thoroughly considered. Chambers of agriculture exist in certain western countries and have a very rich tradition. In Poland, these chambers of agriculture functioned during the period between world wars and in the recovered lands for a few years after the war but they were later abolished. The idea of establishing chambers of agriculture is so important because agriculture lacks any means of economic self-management. The functions of economic self-management in rural areas cannot be fulfilled by agricultural circles, farmer social and professional organizations nor by community people's councils. This gap could be filled by chambers of agriculture. While they functioned in Poland, "The chambers of agriculture were an official agricultural organization that comprised a form of economic self-management which was supposed to cooperate with agricultural administration, to undertake independent action to encourage and support agriculture and finally and to perform the deeds entrusted the chambers by law and decree" (p 180). In the section of the book dedicated to chambers of agriculture, we find not only justification for creation of the chambers but also specific recommendations on their structure, number and position in relation to other self-management and administrative institutions.

The book gives many recommendations or "recipes" for the solving of certain problems. The formulation of some of these proposals does, however, lead to subjective evaluations and the creation of concepts that are appropriate only from a certain point of view. In one place we read: "...the prices of most agricultural products should be determined in a free market" (p 100) where in another place it is written that in the case of so-called primary products the state should be able to influence prices (p 154). These are contradictory propositions because the so-called primary products (grain, milk, livestock) form a large percent of all agricultural output in our country. However, the introduction to this book already states that this publication: "does not pretend that the evaluations found here are free from error" (P 6). A serious shortcoming of the book is its language. It is simple and direct and aside from some fragments of a general theoretical nature, it is comprehensible even to readers who have no prior experience with the subject matter. It can be said that this work is of value not only as a scholarly publication but also as one of popular science.

Prof Manteuffel's book may be good material for further thought and inspiration to study of agricultural reform. It can be recommended not only to readers that are not normally involved with the problems of agriculture and rural life but also to scientists and government officials that have some influence in this area. Aside from those already mentioned, this work contains other concrete propositions for resolving agricultural price and income policy, land use, the organization of the agricultural market, etc. Finally, this book is addressed, as is seldom the case, to the farmers themselves. This refers to particular sections such as "The culture of life (residence) in the countryside and agricultural work" and "The ethics of the farmer's profession".

The arrangement of this book does not allow its particular sections or subchapters to be presented in a comprehensive or systematic manner and only certain selected problems and propositions can be shown.

Many years of research by the Institute of Agricultural Economy have shown that with the growth in the size of private farms, there has been a drop in all of the indicators of production and economics per unit of land surface farmed. This phenomenon has long been confirmed and is often repeated by many agricultural economists (F. Tomczak, J. ST. Zegar). Some are even inclined to say that this is a unique economic law inherent to individual farming. In part, this is due to the attributes of individual farming (maximum agricultural income from the entire farm, etc.). However, as Prof Manteuffel says: "This is a phenomenon connected in any way with the farmstead as such but rather with the conditions under which they operate" (p 83). As farms grow in size, they employ fewer workers per unit of surface area and the proportion of investment in human labor in relation to total investments grows increasingly less. When there is a lasting shortage of many production resources, it is impossible to achieve any real growth in investments on equipment that could not only increase output but also substitute human labor especially in farms that are increasing their surface area. As a result, as a farm grows, the investment made in equipment and labor per unit of surface area falls and this naturally lowers all other economic and production indicators (production, income, etc.).

The book also considers the rarely-discussed problem of poor management of collective farms. It describes not only the motives for forming these collective farms but also of the chief causes of poor management in this "sector" of agricultural production (pp 115-177). It is worth underlining the author's statement that: "We can only be surprised that the government has not only tolerated but intensively encouraged this form of farming (collective) which has been involved in so much waste of expensive resources such as imported power feed bought for dollars and has destroyed the national income" (P 115). This also proves that policy often "had the upper hand" over economics in the 1970's.

Another important problem presented in this work was the question of rural self-management. In recent times, it was desired that the role of rural self-management be given to agricultural circles. Agricultural circles do not, however, meet many of the requirements placed upon organs of regional self-management. "They do not include everyone professionally employed in agriculture nor do they have any authority delegated them by the state" (p 168). Therefore, other rural self-management organizations should be created. The problem was then raised of the need to resolve the current situation of these cooperatives which dominated the circles although they were theoretically subordinated to them... the Sejm recently adopted a law on cooperatives. The SKR are cooperatives and therefore should be subject to cooperative regulations which differ from those for agricultural circles. Thus, it is possible for the SKR to form their own echelon of agricultural services" (p 172).

Along with the introduction throughout the entire economy of economic reform, the old branch associations were abolished as one of the levels in the system of central economic administration. It is also known that for some time there have existed associations of economic entities but there is the fear that these may in practice become the same as the old unions. According to Prof Manteuffel, this fear is all the more justified by the fact that the majority of the association directors are former union directors while the association employees are almost exclusively former union employees. Regardless of any desire to change the nature of their work, there must be overcome a great deal of custom and routine that has a great power to survive (p 174). The author explains the difference between the tasks of associations and unions: "The union was lord while the association was supposed to be a servant" (p 173). This means that the union was the higher authority over the enterprise whereas the association should be a servant to its individual member units. It is all the more important that this be remembered as these are questions which are rarely considered in economic literature even though the success of economic reform depends so much on how certain functionaries and officials understand management of the economy.

Many formulations and concepts in this book must, however, be argued. For example, one cannot agree with the statement that the level of meat consumption per capita in Poland in the period of 1928-1938 "...was to some degree accepted by society" (p 13). Above all, there is no final proof that can support this claim and furthermore, when there is a shortage on the market of a broad assortment of grocery articles that could substitute meat, this idea is very spurious.

Equally arguable is the statement that: "The market and the laws of the market function normally only when the flow of money possessed by citizens is equal in value to the flow of goods" (p 158). The global equilibrium of the market is not necessarily the same as partial equilibrium of certain goods on the market. Shortages of even a single article or group of articles always disorganizes the whole market, even when there is a surplus plus of other products.

At the same time, it is not entirely clear what is meant by the statement: "When the number (in terms of value) of products exceeds by a very high degree the amount of free money on the market, there is a tendency for the prices of the individual products to fall and whenever this situation continues for any longer period, some manufacturers stop producing and this usually bankrupts some businesses" (p 158). The question emerges of whether this is beneficial or not. However, it is hard to form any unambiguous conclusions from either the substance of the sentence above or from its context. In my opinion, a price drop of certain items under conditions in which their supply exceeds demand is a natural law of the market and we should not see any danger in the fact that some producers are withdrawing these products from the market. This is the result of the manufacturers' competition for buyers and this should somewhat streamline the principles by which prices are set and improve the quality of products sold.

I do not agree with the idea that: "Contracting as a method which is supposed to regulate the larger part of production is effective only under conditions in which there is a tendency to overproduce..." (p 26). There are many misunderstandings on the subject of the role of contracts in the organization of agricultural production. They are the result of different interpretations given the goals and tasks of contracts. In my opinion, contracts should cease being an outright tool of administrative "compulsion" for agricultural production. It should be limited to just those directions of production where it is really needed. Contracts on a limited range of items (selected agricultural products) may play an important role in the organization of agricultural production (the provision of specialized means of production, expert advice and productive cooperation). However, these tasks may not be accomplished whenever contracts are only regarded as an instrument for controlling overproduction. After all, for a rather long period of time now, we have not been "threatened" by any overproduction of agricultural materials.

The character and thematic scope of the reviewed book will not permit any comprehensive or systematic presentation of its contents. I therefore limited myself to simply presenting certain problems with regard to their innovative formulation or their enormous importance to current economic practice.

The book contains still many other interesting problems but one can only become acquainted with them by reading this work. This is also true of the problems that could only be mentioned in this review. For that reason, I strongly recommend this book to my readers.

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CSO: 2600/755

YUGOSLAVIA

OFFICIALS DISCUSS PROBLEMS OF FOREIGN INVESTMENT IN YUGOSLAVIA

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian, 15 Apr 85, pp 17 - 21

[Interview with Zivorad Kovacevic, member of the Federal Executive Council, and Milan Kovacevic, project director in the International Corporation for Investments in Yugoslavia, by Fedja Zimic, date and place not specified: "From Credits to Joint Ventures"]

[Text] Since the situation with foreign credits is becoming more certain (there will be fewer and fewer of them), the question of additional accumulation is becoming more and more urgent. Where and how to find injections of foreign exchange for equipment, to keep in pace at least to some extent with world technological developments, and to halt the process in which Yugoslavia is less and less offering goods in higher phases of processing and more and more becoming an exporter of raw materials. How to thread our way into the ever more complex processes of integration of the world economy and to become and remain a competitive trading partner. These are only some of the questions which turn our attention towards the problems of foreign investments, whose legal regulation in Yugoslavia put on new and somewhat altered clothing last November following several years in which positions were weighed. Both hopes and scepticism as to whether there would be any very essential changes that would certainly and permanently make the Yugoslav economy more attractive to foreign capital pervaded all those years of work on the new law on investment of the capital of foreign persons. A longing for that step forward was shared both by foreigners, who would like to invest, and also domestic business people, seeing this mode of Yugoslavia's linkage to the world as not only the individual enterprise's opportunity for a better economic status at home, but also as in the interest of the entire Yugoslav economy both because of the financial benefits that would ensue and also because of the complicated fact of the healthy attitude that comes when what is successful is sold and survives.

Although not much time has passed since enactment of the new law, we think that it is of interest to initiate conversations on ways of attracting foreign capital, precisely because we believe in the correctness of the thesis that Yugoslavia would be in a far more favorable position if instead of the billions of dollars of foreign credits, it received those resources in the form of foreign investments. We spoke about the first experience in the operation of the new law and about the prospects with Zivorad Kovacevic,

member of the Federal Executive Council, and Milan Kovacevic, project director in the International Corporation for Investments in Yugoslavia.

Fate of the Debt [interview with Zivorad Kovacevic]

EKONOMSKA POLITIKA: The public has been informed that a part of this year's negotiations with our creditors has been completed. Can you give us a thumbnail sketch of the situation in that regard?

Zivorad Kovacevic: At one time the Federal Executive Council came out with a program for consolidation of the country's external liquidity up to the year 1990. It is true that the program was not adopted as a document, but it did receive support in the SFRY Assembly and, as is well known, that program's point of departure was not refinancing our obligations and obtaining the understanding of our creditors, but realistic application of the principal of relying on our own resources. It states, then, the task of gradual, but steady reduction of the country's total debt. Last year was the first time in 15 years that the debt did not increase, and this year we intend to reduce it by \$400 million. The second premise of the program is to proceed as fast as possible toward the situation in which the payment burden would decrease and be brought down to the reasonable level of 25 percent of the total inflow of foreign exchange, which is to be achieved above all through a quite rapid growth of the surplus in current payments on the basis of augmented exports, rather than by a reduction of imports. Third, to confine short-term borrowing to its customary function. Fourth, to strengthen foreign-exchange reserves so that they provide the ability to make payments come due at the level of international standards, to which an important contribution was already made last year when reserves were increased to over half a billion dollars. And finally, the return of the commercial banks to international financial markets. Along with all those ambitious tasks, the economy was supposed to be afforded the most certain and supportable conditions possible for conduct of its activity. It was our intention to perform those tasks while refinancing debts for several years and making it possible for repayment of the unrefinanced part of the debt to be close even now to the level planned for the year 1990 so that we would not jeopardize the chance for development as the only real basis for casting off the shackles of indebtedness.

It was along those lines that we began the negotiations with the creditors, which the public was far more fully informed about than has previously been the case. The situation now is that we have completed the negotiations with the IMF at the working level and also with the governments in Paris, and this week we will probably begin the last round of negotiations with the commercial banks in New York. What can be expected at the end? It is certain that we will not get everything that we have had a right to ask for because we have been prompt in making our payments and because we have achieved definite results in adaptation, and that at the price of serious sacrifices. It is most probable that when all is said and done we will have a mixed package in which we will reach a multiannual arrangement with the banks, a one-year stand-by with the IMF until May of next year, and after that our economic trends would only be monitored, and with the governments a one-year agreement accompanied by an explicit willingness on their part to continue to be

involved in the process of Yugoslavia's medium-term economic adaptation.

EP: You said that we have not achieved what we desired in the negotiations with the foreign creditors. Can you tell us in somewhat more detail what that means to the fate of our debts in coming years.

Z. Kovacevic: The fate of our debt depends on us. If we do not guarantee the necessary rate of development and exports, no sort of rescheduling is going to help us, since that would only mean postponement, and the consequences would be still more serious. As for the arrangements which have been reached, there have been certain forward steps. With respect to the IMF, the difference is not only that instead of a letter of intent we have a memorandum on the goals of Yugoslavia's economic policy, with emphasis on our own efforts and measures. The number of what are referred to as criteria of execution has been reduced, so that we are among the countries with the most restricted number of criteria. We have stated clearly that we do not want to go on a new stand-by and the transition would thereafter be made to monitoring the criteria on the basis of consultations with our authorities.

The negotiations with the governments have been very difficult. Although the conclusion was reached at last year's summit in London that multiannual arrangements would be reached for the countries that make serious efforts to adapt their economies, such arrangements covering a period of several years with the creditor governments were not made possible for Yugoslavia nor for the other countries. The reasons for the change in position should not be sought solely in mistrust of success and of the consistency of the economic policies of the debtor countries. It is rather a question of trying to hold on to a channel through which pressure and influence can be exerted. Accordingly, although we achieved better conditions than in previous years, it is obvious that we can anticipate a real relaxation only by being consistent ourselves in carrying out the Stabilization Program.

We will continue in the future to behave correctly in discharging obligations and in conducting negotiations, but we will also clearly present our views as to the unequally divided responsibility in resolving the problems of debts. We will also be saying this at coming meetings of the IMF and World Bank, since the optimistic assessments being put about to the effect that the crisis is almost over for the debtors simply do not hold water. On the contrary, the crisis is not letting up, but is being postponed and is becoming more severe. Certain successes in trade balances have been achieved above all on the basis of restrictions and sacrifices, accompanied by a serious threat to the development of the debtor countries. For example, total exports of Latin American countries in 1981 amounted to \$99 billion, and imports \$101 billion. In 1984 exports were again \$99 billion, but imports fell to \$61 billion, which is how the surplus was achieved to repay the debts, above all the greatly increased interest, whereby these countries have become net exporters of capital.

EP: How do you evaluate the situation concerning the conditions under which foreign persons may invest capital in the Yugoslav economy?

Z. Kovacevic: Even in the debates concerning preparation of the law the commitment held up that instead of taking credit and buying licenses, it would be better for us to turn more towards joint ventures, which mean a sharing of the risks and responsibility for the economic efficiency of the venture. After all, in the matter of our foreign debts, aside from those who borrowed and of course in this respect bear the primary responsibility (having done this incautiously out of a belief that they would easily arrive at "green pastures"), it should be said that the creditors, in a period of threatened market conditions and indeed even negative real interest rates, also displayed (probably not unscrupulously) economic irresponsibility, harmfully ["he saved"] dealing out credits and not insisting very much on guarantees of economic benefits for the projects in which the money was being invested. Which means that the principal of the bank's normal responsibility for the fate of the project it is financing was not much honored. That kind of situation is favorable to investment decisions without much forethought and to the purchase of licenses for third-rate technology. The essential element in a joint venture is the common interest in the project's success, since here the risks are being shared.

The law which was passed last November took into account numerous objections which foreign investors have made in the past practice of investing in the Yugoslav economy.

The judgement was that most of those objections were in order and that they should be accommodated without ideological prejudices, provision being made at the same time of course for full protection of the system and the self-managing enterprise. Since the law's passage a whole series of steps have been taken to provide trading partners abroad the best possible information about the new arrangements. This has been done in a rather well organized way at large meetings of business executives in the United States, Switzerland, the Federal Republic of Germany, Great Britain, France and recently in Italy. All of these meetings were well attended, and the questions were very practical.

In addition to that, the drafting of what we might call an official manual is now in the final phase; in an accessible and specific way it attempts to provide an understandable interpretation of our rigid jargon and terminology and to explain our legislation in this area. The conclusion has been reached that the necessary changes should be made in other legislation in a climate created that will make it possible to simplify the procedure and give the contracting parties maximum latitude in setting forth their own rights and obligations on their own, following the principles set down by the law.

EP: What is judged to be Yugoslavia's attractiveness for foreign investments?

Z. Kovacevic: I think that we should not idealize our activity. First of all, compared to other bodies of legislation concerning the investment of foreign capital, we are not the most liberal. By contrast with other countries, for understandable reasons, in our country the foreign investment is not made in any sort of joint or mixed enterprise nor in a joint stock company, but rather in a Yugoslav organization in which the domestic and

foreign partners exercise equal rights in the joint venture. I think that Yugoslavia can be attractive to investments on the basis of its geographic and geopolitical position, because of its good ties with the developing world, because of its attractiveness to tourists, because of its clear orientation towards respect for the laws of the market and because of the firm guarantees to ensure the performance of all obligations assumed and protection of the rights of the foreign trading partners. Finally, but not least in importance, because of the enormous potential of university-educated people and the good skill pattern of the labor force, which means that the objective capability exists for taking up new technology.

However, so as not to give the impression that there will be a sudden rush of foreign capital into Yugoslavia following passage of the new law, it should be said that there are still many things which put people off. One is quite certainly past experience, which is not forgotten and which, except for certain honorable exceptions, is not encouraging. We can of course attribute a great deal of that to the legislation, but not all of it. And then there is the world's blanket reserve towards countries which are in the phase of rescheduling (debt) and overcoming economic difficulties, and especially, in the case of Yugoslavia, the high level of inflation. I have to say that the provision in the law to the effect that the real value of capital invested would be repatriated, which was supposed to offset the effects of inflation, was particularly welcomed.

However, regardless of that, when interest rates are this high, the question from a foreigner's standpoint is how to find a Yugoslav enterprise that is productive enough, whose product is sufficiently attractive, which has good sales, whose rate of profit would be higher than that high interest rate by a significant margin, so that the investment and risk would be more attractive than credit. I have to say that there's also reserve concerning our system of self-management; that is, over the question of whether the foreign partner will be able to exert a real influence on the method of doing business and the behavior of the Yugoslav partnership. In that respect the law afforded the possibility that the partners could stipulate in the contract standards governing material costs, criteria for establishing the rate of depreciation and standard levels of manpower (number of workers needed, skills, value coefficients, etc.).

Another issue is the method of decisionmaking. Instead of the role up to now, which has been mainly advisory, the joint body is given the status of a body making decisions about certain questions in business operation, as stipulated in the contract. This settles two issues. The requirement of the Yugoslav side's majority share has been done away with, demonstrating that this is not a joint stock company. The rights are equal, except that the Yugoslav side must of course consult with its worker-management bodies. Yet there is still reserve in this regard, although we are attempting to oppose the skepticism with good examples of successful joint ventures in which the Yugoslav side has realized that this investment is in the mutual interest and in which the worker-management bodies are allies along the road towards the most productive possible labor.

A further limitation is the fact that joint ventures, along with these world standards as to operating costs and the need to realize a remainder of net income, that is, profit, presuppose a highly productive enterprise on the Yugoslav side. So, when we say that we are opening up a new channel for the inflow of foreign capital through joint ventures, by no means should this be taken, as some initiatives show that it has been, as a new opportunity for some new kind of borrowing and obtaining credit. This is an opportunity being offered only to those who are already at a certain technological level and who are prepared to take over new technology and prepared to expose themselves to world standards of productivity, organization, marketing, costs, product quality, and so on. In other words, those who are on the verge of losing money and think that they can solve their problems with additional foreign capital obtained in this way are doomed to failure in advance. Such illusions should be dispelled. Incidentally, we should probably anticipate that joint ventures will develop along a broader front, but with smaller amounts of capital. I think that at present it is not realistic to expect that there will be investment in any large projects, nor investments in which foreigners have a majority share.

Since the new law took effect, nineteen new investments have been registered. It is evident from them that the size of the investment is not large and that these are domestic enterprises which have already established business relations with some foreign trading partner. That is, enterprises which offer some guarantee and have a reputation on the world market. I personally think that this is a good way to do it. It is not likely that investment will be made in any large projects, except on the basis of cofinancing.

It is a good feature of the new system that credit can be used, although at bottom we are discouraging credit. I also think that it is very important to realize that there are fewer and fewer simple purchase-and-sale transactions. Today the transactions are increasingly composite, the packages are complicated in both the production and financial aspects, so that there will be various situations in which it will be quite difficult to discern when there is cofinancing and when there is credit financing of export on our part and on the part of some foreign agency, when there is a joint enterprise on the side, and when there is industrial cooperation and joint production.

As for regulating the investments of foreign persons, there are several other laws in the works which have to be added. One has to do with joint financial institutions and the Yugoslav Bank for International Economic Cooperation. These joint financial institutions are supposed to monitor the efforts of Yugoslav firms on foreign markets.

Another is the draft of the law on free trade zones, which makes it possible to create export-promotive zones in which joint ventures will be possible for production, processing, finishing, and so on. So here again new opportunities are being opened up.

In the talks conducted, say, in Southeast Asia it was said that large manufacturing and distribution centers might be set up on the Yugoslav coast for certain quite important products from those countries. A proposal has also

been made for the possibility of time-sharing, which means that each purchaser obtains the right to an apartment designated in advance in particular facilities and a particular time of the year fixed in advance, for a period ranging from 5 to 30 years. This program, which is called time-sharing, is quite widespread in the world. A proposal is also being made concerning the possibility of financing the construction of marinas by selling moorings for a lengthy period of time.

Closer to the World [interview with Milan Kovacevic]

**EKONOMSKA POLITIKA:** How do you evaluate the overall situation with respect to the attractiveness of the Yugoslav economy following passage of the new law on investment of the capital of foreign persons?

**Milan Kovacevic:** I think that we need to have in mind as the world framework that foreign investments in the world amount to over \$600 billion. At the same time, foreign investments amount to about 15 percent of the net inflow in the payments balances of the developing countries. In both cases our share is very small, and if it shifted just a bit in that direction we could say that we have gained something. After all, as is well known, up to now foreign capital has been present in Yugoslavia only in the form of credit, while other forms of investment have been negligibly small.

As for the new law's impact on investment of the capital of foreign persons, in certain respects it has improved the conditions for foreign investors, since we have finally abandoned the thesis of our inalienable rights which are untouchable for the foreigner, so that the law now clearly states that a foreigner can share equally in decisionmaking on the basis of parity. Second, the investment procedure has been considerably simplified. Third, the category of the remainder of income to which the foreigner is entitled has been made clear, and indeed even quantitatively it may be somewhat larger than was the case previously. All of this can make a positive and attractive impression. Yet what has not been solved to achieve greater attractiveness to foreign investments, although perhaps it seems unimportant, is the terminology, in which the foreigner has extreme difficulty getting his bearings. In that sense we altogether unnecessarily recoil from the use of certain terms and categories which the rest of the world is using. Take just the concept of profit as an example. Now, to make matters still more illogical, we use the word "profit" in connection with taxation, but in the law on investment we say "the remainder of income."

Probably the greatest problem arises because of Article 8a whose purpose was to restrict credit. I think that is altogether unnecessary. That is, credits are a form of investment just like a number of others. They are inevitably, depending on the project, and it makes no sense to restrict them to the amount of the investment. After all, there are projects in which the financial package is such that there is more working capital, and then the profitability and risk are crucial to whether a project will be able to survive large credits or not. Further, since the interest rate varies, and if we suppose that the rate of profit should be higher than the rate of interest, then it is possible that the use of credit will differ from period to period. But a

still larger problem than that limit is the assumption, which in methodological terms is altogether erroneous, that credit must be repaid out of the result achieved. Any examination of what organizations of associated labor do has shown that this is utterly illogical. After all, as is well known, credits are constantly taken, but when they are taken, they are not part of the results, and when they are repaid, they are not taken away from the results. In that sense this formulation is so bad that probably it will not even be implemented, and as for improvement of the law itself, practice will most probably show that it is here that something will have to be changed.

Another thing which was poorly dealt with in the law, even worse than before, is the possibility of adjusting the value of the investment in order to preserve its real value. In the previous arrangement it was possible to stipulate some imitation of the property situation in the contract. However, the new formulation is that an increased amount may be realized as a function of income, which means as a function of the results, but not as a function of preservation of property, defense against inflation, and so on. This formulation is all the stranger because the opposite rule was adopted in the Law on Past Labor, to the effect that the value of the investment of the domestic investor is automatically adjusted in keeping with revaluation of fixed capital, unless the parties agree otherwise in the contract. Which means that here the property principle pure and simple has been applied.

Incidentally, when we compare our general attractiveness for foreign investments with the attractiveness of other countries in the world, we should be mindful that we have adopted an entirely different system of investment. That is, in our country the only kind of investment is by contract, while in all other countries investment involves co-ownership of some organization. This raises several problems. First, that the foreign investor does not have security with respect to the preservation of that organization, of its integrity. Which accounts for the persistent impression that that organization is not a delimited entity, that income can be siphoned off somewhere else, which in fact does often happen in practice through various contributions, through the rather high overhead. The second problem which arises is that in our country the periods of time covered by investments have been greatly shortened. After all, when an investment is by contract, neither of the contracting parties is interested in any very lengthy period of time. This raises the most frequent problems, since in practical terms this makes foreign investments much like a category of credit. Article 27 of the SFRY Constitution is also an impediment to improving both aspects and in general to creating conditions that would be competitive with what is in place in the legislation and conditions in other countries. That article insists that foreign investors can be accorded the same terms and conditions which a domestic organization receives in investing in another organization. I think that concept of forcing upon foreign investments the system that we have brought about for domestic organizations is not a good one, and in regulating it, as indeed is the case with all foreign economic relations, we should merely make comparisons with other countries. Otherwise we will be left practically cut off, we will not be able to cross the line even though we want to.

EP: How do you evaluate the situation with respect to the level of inflation,

which makes the conditions for the foreigner's investments still less attractive?

M. Kovacevic: If investment involving ownership were brought about, I think that the attractiveness would not be diminished, since even in a time of extremely high inflation Latin America, for example, had rather large foreign investments. There are two reasons why people invest there: one is to preserve certain property, and the other is to make money. In our country investment under contract unfortunately does not even imitate such a principle. I therefore think that organizations must be left at least room for negotiating the level of repatriation in a contract, whereby it would be possible to combat inflation.

In connection with inflation and its impact on foreign investments there has also been the most recent amendment of the law on gross income and income. This is a perfect illustration of the extent to which even in other pieces of legislation we have been neglecting the fact that there are foreign investments and that we need them. This amendment of the law, that is, has introduced mandatory revaluation inventories in keeping with the prices of the last purchase. It has also been prescribed that that difference automatically goes into the business fund. Which means that it completely bypasses the income in which the foreign investor shares. Likewise, in the coming period the augmented value of inventories becomes part of the higher operating costs, and thus diminishes the operating result in which the foreigner does participate. The foreigner naturally can see that as an encroachment on his interests.

The next example, which also shows that we pay too little consideration to foreign investments, is the Agreement on Taxation, which completely omitted to concern itself with the institution of foreign investment. That is, in all countries the attraction of foreign residents is taken into consideration in drafting the tax law. In our country all taxes are the same regardless of whether a foreign investment is involved, and in addition there is also the additional tax on the foreign investor's profit. Instead of reducing taxes as a function of the conditions for taxation in the rest of the world, we are adopting uniform solutions regardless of whether a foreign investment is involved or not.

EP: What have been the first reactions of foreigners to the new law?

M. Kovacevic: I think that those reactions are deceptive. The signing of a large number of contracts was actually delayed because of the new law, since it was said that it would create far more favorable conditions for investment than the ones that prevailed previously. I think it remains to be seen what sort of reaction there will be to the law over the long run, although I think it is not groundless to say that certain new incentives will have to be explored.

EP: What are those incentives?

M. Kovacevic: I think that they would lie above all in a general re-examination of general legislation on foreign investments. And also to reexamine the

principles in the Constitution - might we possibly seek more diverse methods of investing foreign capital. Moreover, it is a pity that in drafting the law on free trade zones we did not take into account foreign investments in which the foreign trade zone might as a beginning be co-owned. There is of course a need to examine other pieces of legislation as well and to see to what extent they serve or collide with the law on investment of capital of foreign persons. It would be especially advisable to reexamine the law on gross income and income, since if our joint investments are made on the basis of contract, then that should imply that the two investors should state what profit is to be. However, although investments are contractual, the law has not renounced the right to define what it is that the foreign investor is sharing in, which then has a doubly adverse effect. First because it destroys that flexibility that there ought to be in contractual investments, and second because that kind of definition can not be mindful of all the varieties that exist in practice.

EP: It is often said, perhaps in fact mistakenly, that the price of manpower is one of the principal factors which could attract a foreign investor. The examples unfortunately demonstrate the opposite, that in spite of expensive manpower capital prefers to go precisely to such markets.

M. Kovacevic: It is that that demonstrates that the amount of investment depends much more on how open a country is, since for any of the resources of a country to be open to comparison with the same in some other country, there has to be a situation in which that country is sufficiently open so that those other parameters operate neutrally. However, that is not the case in our country. It is certain that live labor is inexpensive in Yugoslavia, which along with the favorable geographic position could be an extremely attractive factor to investment. However, one can not imagine a joint venture which is an island. It has to import, so that it immediately collides with our foreign-exchange problems. Second, foreign investment has to pay all of our contributions, which means that it collides with the expensive overhead. It has to sell on a market where it comes up against our price system. And so on. Even if the principle of foreign investments had been properly dealt with in the Constitution, until we create a system a bit more similar to that of other countries with respect to the functioning of the market, we still will not be able to open ourselves up towards the world, that is, to attract foreign capital more effectively and in a larger amount.

In other words, our desire to legislate everything essentially narrows the room which economic entities have to operate in with respect to foreign investment as has been the case in other respects. We can take as an example the European market, which now extends to 12 countries. They all have very precise formats of the operating results and statement of condition, and communication between economies is quite elaborate. Our most recent format of the operating balance, however, is an immense step backward from what we already had. As though there's no desire whatsoever to make any sort of comparative analyses in these microeconomic parameters or to take advantage of the experiences of foreign countries. In that sense I think that it is a mistake to expect a priori that a foreign investment can signify a larger quantity of foreign exchange from exports. In the final analysis it probably

will bring that, but the benefits also lie in other terms of reference which the legislator must be mindful of.

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CSO: 2800/299

YUGOSLAVIA

BAJT-PERISIN POLEMIC ON INTEREST RATES

Zagreb DANAS in Serbo-Croatian 2 Apr 85 pp 10-11

[Article by Dr Aleksandar Bajt, director of the Economics Institute of the School of Law at Ljubljana University: "Open Letter to Dr Ivo Perisin"]

[Text] Esteemed professor,

One can conclude from the article entitled "The Errors of Shock Therapy With Interest Rates," which was published by the newspaperman Ivo Jakovljevic in the Zagreb weekly DANAS (No 160, 12 March 1985), that you again presented your argument against positive real interest rates at the 16th Meeting of the LCY Central Committee. "I assert even today that the SIV [Federal Executive Council], our financial world and certain economists" (I allow myself the immodesty of hoping that you have not forgotten to include me among them) "have been offering us something said to be real, but which is not real at all. I will take only one example, accompanied by the statement that our economy has been paying an interest rate higher than the rate of inflation ever since it became aware of itself. Should it be proven that I am wrong, let my doctorate be taken away as though I had never received it," you said according to the reporter's account. According to that article, again in your own words, you presented that example in the following terms:

"We have calculated that the Croatian economy still had about 40 billion dinars of these lendings outstanding in 1983 and that at the same time it was using only 58 billion of long-term loans.

"We applied to that amount the interest rate at that time, which was 30 percent, and established that it paid 17 billion dinars of interest. Yet on the 40 billion of its own resources which it gave up, at an interest of 2.8 percent, the economy received only 1.2 billion.

"And now when we see how much it lost on the one hand and how much it paid on the other, we arrive at the result that for credit in the amount of 58 billion dinars it paid a rate of interest which actually exceeds the rate of current inflation, which in that year was 39.1 percent. The computation demonstrated to us that the real interest rate at that time was all of 49 percent, that is, 10 percentage points higher than the rate of inflation!"

According to the account of NIN (No 1784, 10 March 1985), your speech in that meeting of the LCY Central Committee was persuasive, which can also be concluded from the fact that the newspaper reports do not record any objection whatsoever by the members of the LCY Central Committee present to what you had to say. Although *qui tacet consentire videtur* is not a correct interpretation of the logic of Roman law, silence is without doubt symptomatic.

In spite of your persuasiveness, or, more accurately, precisely because of it, and also in spite of the level of the political forum from which you sought support, or, more accurately, again precisely because of it, I have to tell you that your opinion is mistaken, actually a completely trivial error, and your posturing in the meeting of the LCY Central Committee with the doctorate you offer to anyone who refutes that is far below the level befitting a scientist and political figure even of a much lower rank than yours. Although you attained the goal you wanted to with that gesture, that does not make what you said any less erroneous, and your manipulation of the opinion of others is therefore not a whit less scientifically and politically irresponsible.

As you see, it has taken several weeks for me to decide to write this letter. I had been hoping that in the end you yourself would after all spot your mistake or someone else would correct you. This has not occurred. Believe me that I am embarrassed, worst of all in my own eyes, that I must seriously discuss such a trivial mistake. Yet because of the persistent intrusiveness with which you have been passing off nonsense for scientific truth, and especially because of your obvious desire to exert influence thereby on decisionmaking at the highest political levels, I feel that silence would not be proper, since I myself might thereby indirectly contribute to the wrong decisions about the most essential issues of our future economic and social development.

There are two ways of showing the mistaken nature of your proof given above that the economy has already been paying a positive real rate of interest for a long time.

First, in your argument you confused two fundamentally different things, the difference between borrowing rates and lending rates on the one hand with the difference between the nominal interest rate and the rate of inflation, that is, with the positive real interest rate, on the other, whereby you demonstrate your inability to see the difference "between samp and Smarna Gora," to use Ljubljana jargon out of love for you, since you like colorful language. With the example you give you only prove that the lending rates of the Croatian economy, that is, the rates which it receives on credits granted directly or indirectly to other entities (to noneconomic activities in Croatia and to other republics) are lower than its borrowing rates, that is, the rates which it pays on the credits it takes. Everyone who owes more ("only 58 billion") than is owed to him (all of 40 billion), especially when the lending rate of interest (2.8 percent) is lower than the borrowing rate (30 percent), has to pay more interest than he receives. However, this does not mean that the real interest rate is positive. In the case you referred to the Croatian economy (your figures throughout) paid a real interest of 30 percent - 39.1 percent (which was the rate of inflation) = -9.1 percent on the 58 billion of credit it took, that is, a negative rate, while on the 40 billion of credits granted

it received a real interest rate of 2.8 percent - 39.1 percent = -36.3 percent, again negative, in this case even profoundly negative. That is, in neither case was the real interest rate positive, as you say, but rather it was negative. The fact that the negative real lending rate of the Croatian economy was more negative than its negative real borrowing rate, certainly unfavorable for the Croatian economy, does not make either of them a positive real rate. Second, according to the article referred to, to meet the needs of your proof you calculated interest rates for the Croatian economy since, one can conclude, you did not have figures for Yugoslavia as a whole. In your words, "we were not able to calculate the interest rates for Yugoslavia as a whole, so we took the example of Croatia, but the situation is approximately the same in other places as well."

Esteemed professor, this is the second, again elementary, error in your argument. Here is why.

In order to avoid the problems of "higher" mathematics which are generated by the fact that the SFRY consists of eight federal units, and each of those units consists both of an economy and noneconomic activities, I will assume that it consists of only three entities: the Croatian economy (hereafter referred to as Croatia), the noneconomic activities of Croatia (hereafter referred to as Noneconomic) and non-Croatian federal units (hereafter referred to as Non-Croatian). The personal sector, for the sake of simplicity, I am leaving out, but it could be included in the Noneconomic. Since your proof pertains to credit relations within the country, foreign credits and the interest we pay on them must be ignored. That is, the SFRY is treated as a closed economy, which is as it should be and I, of course, agree with that.

Since you say that Croatia is paying net interest of  $17 - 1.2 = 15.8$  billion dinars, someone has to be receiving that interest. In this case this can only be the Noneconomic and/or Non-Croatian. But that means that the Noneconomic and/or Non-Croatian (as a whole), with precisely the same persuasiveness with which you argue that Croatia is paying positive real rates of interest, can argue that they are paying negative real rates of interest in precisely the same amount. Of course, neither the Noneconomic nor Non-Croatian will make that argument, since that would not benefit them, but that does not alter the state of the facts.

In other words, your assurance "but the situation is approximately the same in other places as well" is incorrect. You did not take Croatia as an example because "you could not compute the interest rates for Yugoslavia as a whole," but because that offered you an opportunity (not the only one, Slovenia would have been still better) to "argue" by portraying the difference between lending and borrowing rates as the real rate of interest and the fact that the amount of borrowing interest is larger than the amount of lending interest, that the real rate of interest was positive back in 1983. However, the Non-economic and Non-Croatian argue precisely the reverse. Their rate of interest according to your own proof is profoundly negative. What is then true? The average? That is precisely 0 percent. Is the rate of interest for the entire country, then, 0 percent? That would be true if we followed your logic. As a matter of fact, the only true thing is that the country as a whole does not owe anything to itself, nor does it have any claim against itself.

I completely agree with your implicit assessment that the relationship between the economy and noneconomic activities is abnormal in our country, that the former must finance altogether unnecessary expenditures by the latter. However, given that abnormality, the differences in real interest rates are only one of the ways in which that is made possible. Numerous taxes and contributions which the economy pays for noneconomic activities are much more significant. At the same time, you altogether neglect the regional aspect. A considerable portion of what Croatia is paying in the form of borrowing rates which are higher than lending rates it is paying to Non-Croatian. You have altogether overlooked that in this connection Croatia passes for a more advanced part of the country, while Non-Croatian includes the less developed parts of the country; that is, you did not detect that you examine the problem of interest rates not only from the standpoint of the national economies of the republics and provinces, but also from that of the national economies of the advanced republics and provinces, which you ought not to have done, especially as a politician. After all, do you not know that the net difference in interest rates which Croatia is paying is only one of the forms of socialist assistance to the faster development of the less advanced parts of the country? By no means do I mean to say that this is the most effective form or that it is effective at all, but that does not diminish one bit the erroneousness of your views related to the real rate of interest.

Of course, in what I have said so far I have not shaken in the least your confidence in the correctness of your own argument, but because of the large political reputation which you enjoy and the persuasiveness with which you present your "proofs," I probably would not manage to persuade the public either or its segments which are most relevant to political decisionmaking. The custom in such a case is to seek the opinion of an independent arbiter. Since in "presenting these past days" your "interest computations to the executive director of the IMF," whom you were meeting with according to the article referred to, you also "heard his opinion in the form of a question: 'Is it possible that that is the way you do things in your country?'" from which it is obvious that you consider the IMF executive director a decisive authority, my proposal is as follows:

"I propose that the two of us sit down at a desk and write a joint letter to your executive director of the IMF. In that letter you would present your argument that real interest rates in our country have long been positive, and I my argument that they are not positive even today. Together we would ask him to offer his professional opinion concerning this 'scientific' dispute. If we accepted that opinion, we would communicate it to all interested parties. Since I do not know the name of the executive director of the IMF to whom you refer, and very probably am not acquainted with him, my proposal is more than fair."

As for your doctorate, esteemed professor, have no fear about it. I am quite certain that no one will ever be able to prove to you that you are not right.

Respectfully.

7045

CSO: 2800/321

YUGOSLAVIA

REPUBLIC DATA ON PROFITABILITY, INTEREST, CREDITS, 1984

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 15 Apr 85 pp 21-22

[Article by Tomislav Dumezic: "Redistribution and the Underdeveloped"]

[Excerpts] The financial results of the business operation of organizations in the economy over the past year were determined primarily by the high rate of inflation (57 percent), by the shifting of price relations, by a further drop in the standard of living of the employed labor force, and by a reduction in the real volume of all types of consumption. Inflation, along with the shifting of price relations, speeded up the redistribution of income (sectoral and regional). The policy of high nominal interest rates, which are only partially in effect (on a large portion of short-term credits from domestic sources, on all foreign credits, and on a negligible portion of the deposits--lendings--of the economy) along with a system of income accounting that is totally unadapted to the conditions of a high rate of inflation, is speeding up both the sectoral and the regional redistribution of income, with implication in the economic area and also in the area of social welfare. The volume of redistribution of income is so large that it is even bringing about redistribution of property itself.

What Is the Profit Rate

Last year the economy set aside 810 billion dinars for accumulation and reserves, which is 77 percent more than in 1983. Within that allocations to the business fund amount to 531 billion dinars. If allocations to the business fund are reduced by the amount of losses declared, it turns out that net allocations amounted to 398 billion dinars. Total declared accumulation is somewhat greater, since that is still the nature of certain allocations to funds and to some extent allocations to reserves as well. However, a part of the business fund is being pooled in the Federal Fund for Credit Financing the Development of the Underdeveloped Republics and Provinces and the fund for credit financing the development of the underdeveloped opstinas in the republic. That is why that sum of about 400 billion can provisionally be treated as the net accumulation of the economy, which it can use to finance development (this is true assuming that it is possible to use depreciation to finance purchases necessary to maintain existing capacities, which is not today the case).

Table 1. Profitability

Republic or Province	Rate of Profit	
	Net*	Gross**
Yugoslavia	5.06	8.09
Bosnia-Herzegovina	3.83	6.77
Montenegro	0.34	6.32
Croatia	5.14	8.08
Macedonia	0.26	6.15
Slovenia	7.05	9.34
Serbia proper	6.81	8.93
Kosovo	0.98	5.44
Vojvodina	4.19	8.20

\* The net rate of profit is computed as the ratio of appropriations to the business fund minus losses to the status of the business fund.

\*\* Gross profitability is the ratio of net accumulation plus interest paid to average business capital employed.

The rate of profit achieved in the economy is low. Net accumulation is only 5 dinars for every 100 dinars in the business fund, and gross accumulation is only 8 dinars for every 100 dinars of average business capital employed. The rate of gross profitability is higher in all the republics and provinces than the rates of net profitability achieved. This is because interest amounts to more than accumulation. When we take into account that the interest paid did not even come close to offsetting the diminished value of the principal, it follows that even the rates of gross profitability were utterly unrealistic. This year, under the impact of the amended law on ascertainment and distribution of gross income and income, in which interest rates on short-term credits have been charged to costs, they will already be considerably lower.

Table 2. Interest in 1984

Republic or Province	Share in Income		Ratio Between Interest Collected and Interest Paid (interest paid = 100)
	Of Total Interest Paid	Of Net Interest Paid	
Yugoslavia	18.9	11.7	38.0
Bosnia-Herzegovina	19.2	12.9	32.8
Montenegro	36.2	21.2	19.1
Croatia	17.9	11.4	36.4
Macedonia	24.4	17.6	27.7
Slovenia	18.0	8.8	51.0
Serbia proper	18.3	11.3	38.1
Kosovo	19.6	14.4	26.8
Vojvodina	19.8	11.8	40.6

There are essential differences between the more advanced and the underdeveloped republics and provinces in the profitability achieved. All the more

advanced areas (with the exception of Vojvodina) achieved an above-average rate of net profitability, and all the underdeveloped areas a below-average rate. The lowest was in the economy of Montenegro (0.45), Macedonia (0.26) and Kosovo (0.98).

And when we examine the rates of gross profitability (the ratio of gross accumulation to average business capital employed) there is a difference which approximately corresponds to the level of development of the various republics and provinces. Here again all the more underdeveloped republics and Kosovo achieve a below-average gross profitability. However, the differences are not so great as in the case of net profitability. It can be said that they were even minimal. Why? All the underdeveloped republics and Kosovo are deep in debt. This applies both to long-term and to short-term credits. The economies of the underdeveloped republics and provinces are even far more oriented toward using short-term bank credits than the more developed ones, since for all practical purposes their entire accumulation is invested, so that they have no money resources of their own to finance current business operation.

#### Redistribution Because of Interest and Debts

It follows that the policy of high nominal interest rates at a time when the economy's own resources have practically been taken away to finance current reproduction, hits the economy of the underdeveloped republics and provinces harder than the economy of the more advanced republics and provinces. This is in fact demonstrated by the figures on the share of interest paid in income as well as by the figures on the ratio of interest collected to interest paid. All the underdeveloped republics, including Kosovo as well, have a higher share of interest paid in the income earned than the average for Yugoslavia and that of the more advanced republics. Halting this redistribution does not mean that interest rates have to be lowered. Other steps need to be taken that would contribute to financial consolidation of the economy. First of all, there is a need to credit the capital being created today by the government by issuing notes to the business fund of organizations of associated labor in the economy, but not allowing them to use those resources to invest in fixed capital. Crediting government capital to the economy would diminish the need to use short-term credits, which would result in smaller expenditures for interest and would speed up the turnover of capital, since the illiquidity that is still present would be essentially reduced.

It might be said that thanks to the low rates of interest on the credits of the Federal Fund for Credit Financing the Faster Development of the Underdeveloped these economies are markedly favored given this kind of inflation. The content of this observation alters considerably when we look at the figures on the amount of interest paid. It has to be acknowledged that the more advanced areas, thanks to inflation, are also obtaining relatively cheap credits from note issue, and to a greater extent. That is why clearing up the question of property and obligations would also contribute to more wholesome business operation and more realistic indication of financial results.

The underdeveloped republics and Kosovo are far more burdened with differences in rates of exchange declared in economic organizations. Total negative

differences in rates of exchange declared in accounts as of December of last year amount to 618 billion dinars. These are immense resources which have also contributed to the unrealistic (better) indication of financial results.

Table 3. Credits and Differences in Rates of Exchange

<u>Republic or Province</u>	<u>Share of Expensed Negative Differences in Rates of Exchange in Income</u>	<u>Share of Foreign Long-Term Credits in Total Long-Term Credits</u>
Yugoslavia	14.3	43.3
Bosnia-Hercegovina	12.6	48.5
Montenegro	73.3	58.5
Croatia	14.3	44.9
Macedonia	15.6	33.8
Slovenia	8.7	45.1
Serbia proper	11.3	37.2
Kosovo	26.2	36.4
Vojvodina	18.8	44.6

Negative expensed differences in rates of exchange (in organizations of associated labor in the economy alone) are relatively largest in Montenegro and in the economy of Kosovo. The economy of Montenegro, where the expenses negative differences in rates of exchange have amounted to almost three-fourths of the income earned by that republic's economy, is in the most serious situation. And the pattern of credit in the economy of Montenegro is unfavorable, since most of the long-term credits have to be returned in their real volume and with interest.

7045

CSO: 2800/298

6 June 1985

YUGOSLAVIA

## STATUS, DECLINE OF SOURS DISCUSSED

Belgrade BORBA in Serbo-Croatian 2-3 Mar 85 p 4

[Article by Dusan Nedeljkovic: "Rush Without a Reflection"]

[Text] Better business, a unified housing policy and distribution of personal incomes, and above all increased cooperation among OOURs [basic organizations of associated labor] are only some of the advantages used to explain changing the "Prva petoletka" [First Five-Year Plan] SOUR [composite organization of associated labor] in Trstenik into a work organization. Almost the same arguments were used at one time when "Prva petoletka" was transformed into a SOUR!

This, however, is not the only paradox accompanying the transformation of many large collectives after the adoption of the ZUR [Law on Associated Labor]. For a time, approximately between 1976 and 1980, the formation of composite organizations almost became a fashion, and at one time we had close to 400 SOURs. It is difficult to believe that all of them had a complete technological cycle, as the ZUR requires, since many opstinas wanted to have giants--at least on paper. Since it was quickly seen, however, that numerous problems were not solved by this status enlargement of the former enterprises, in the last two years the reverse process has already begun.

## Every Opstina Wants a Giant

Why are we abolishing the SOURs now? Analyses of the necessity for such a move usually cite what we have already cited in regard to the collective in Trstenik: better business and a greater opportunity to pool funds. It is furthermore usually noted that changing a work organization into a composite one weakened cooperation within the collective, and that this afterwards led to the work organizations and basic organization closing themselves off within their own limits. What is happening is approximately what was discussed by MICA Janjetovic, the chairman of the workers council of the Sisak Ironworks SOUR:

"First of all the work organizations are 'lost.' The OOURs simply sign agreements at the level of the SOUR. This apparently greater cooperation, however is now more unstable, and the basic organizations are closing themselves off. I am also saying this on the basis of our own experience, although we do not want to go back to the previous organization."

Considerable time has passed since a meeting in Osijek when there was a discussion of the organization of Slavonija's agricultural combines. At that time we noted the words of Ante Markovic, the chairman of the Executive Council of the Croatian Assembly:

"You have 9 combines, 9 SOURs, but all of them meet the conditions only for one composite organization," Ante Markovic said. "Instead of your becoming associated, each opstina is insisting on having its own way. The question is how long this kind of dabbling can survive."

As far as we know, this was one of the first warnings that we had gone a little too far (or much more) in forming SOURs. For example, there were understandable attempts at RMK [Mining and Metallurgical Combine] Zenica to have the work organization, with 35,000 employees, grow into a complex one, since it happened that one OOUR had 19,000 employees, although even here the transformation was postponed, and was only carried out later. Many pygmy collectives, however, also wanted to change their status--upward. Thus, for example, Belgrade's Kirilo Savic Institute (400 employees) tries to transform itself into an SOUR, in which certain OOURs would have one employee apiece! Naturally, nothing remained later on from such ambitions on the part of the leaders.

At one time, the formation of SOURs almost became a fashion that was usually pushed by the opstinas. Thus, for example, RTB [Mining and Smelting Basin] Bor was transformed into 5 SOURs, and thus other opstinas in addition to the Bor opstina also obtained giants! Admittedly, these SOURs have now been linked into a business community, but malicious people say that the present link among them is no less fragile than the previous SOUR one. If there had been real linkage, it is unlikely that Nis Elektro would have left the Belgrade SOUR Unielektro. The decision has been explained by the lack of anticipated specialization.

We usually learn our lessons late, and the assessments of the pronounced process of the formation of SOURs only appeared in 1983 and 1984. Specifically, two studies, one done by the Research Center of the Economic Faculty in Belgrade, and the other by Slobodan Ostojic, "SAMOUPRAVNE KORPORACIJE" [Self-Managing Corporations], provide answers to these questions.

#### Slight Delay in the Lesson

"The population of Yugoslav SOURs is dominated by 'fragile' SOURs in which the formation of OOURs' has gone too far, and the overemphasized autonomy of the basic organization is hampering effective coordination. The federal structure of decision-making has made it possible in practice for the parts (the OOURs) to grow into separate wholes, while insisting on inviolable autonomy within the SOUR. Often the workers' assembly of the SOUR has much less power than the workers' council of the OOURs," Slobodan Ostojic says in his book.

Another defect in the system, according to him, is the way in which social funds are used. These funds are decentralized, and furthermore there is no institutionalized obligation for the OOURs to replace them at a definite set rate of accumulation. "An SOUR cannot function in an economically efficient

manner if it is organized as a free association of allied members that have inviolable autonomy and an unlimited right to defend their own particularistic interests by the use of a veto," Ostojic says.

Most of the approximately 400 SOURs emerged through the reorganization of the former enterprises, following the adoption of the ZUR, and considerably fewer through the association and merger of OOURs. In Bosnia-Hercegovina, for example, OOURs are associated within the framework of the realization of a political concept of the republic's development, and thus several SOURs have been created in which the entire economy of a given branch or group has been concentrated. That was how UNIS, RMK Zenica, Energoinvest, UPI, Sipad, and Soda-so appeared. In Serbia, however, the creation of SOURs has most taken place spontaneously, and some of them even overlap--the electrical and machine building group, for example, which includes MINEL, MIN, Gosa, and MAG.

Something else is very characteristic of this entire process of the formation of SOURs: all of the associations and transformations are within republic boundaries. There are almost no examples of SOURs including ROs [work organizations] in two or more republics and provinces, and if there have been some, they have been broken up, like Gorenje and Sever, for example.

#### Experience Is Important

Belgrade took the lead in the number of SOURs. There were 12 of them just in the areas of the production and processing of metals, energy, and chemistry. Now, it seems, it is also taking the lead in the process going in the opposite direction (de-SOURization).

The first to move was Galenika, which, like others, never solved the basic problem: how to make it possible to concentrate accumulation. Thus, an SOUR with 5 ROs and 29 OOURs was converted into a work organization with 8 OOURs and 4 work communities. The Belgrade ZTO [Railroad Transportation Organization] went back to being a work organization when it established more or less the same shortcomings in SOURs. We have unofficially learned that several other large collectives are in the process of being de-SOURized.

Does this mean that more realistic knowledge, supported by concrete and mostly bad experiences, has replaced the megalomaniac ambitions of individual leaders in the collectives themselves, as well as in the opstinas and sociopolitical organizations? Many of them entered the previous transformation in the belief that this would solve all of the problems. It was shown very quickly that the conversion into SOURs had not succeeded in substantially increasing the economic motivation of the workers and ensuring an increase in the workers' influence on major decisions. It contributed even less to increasing answerability for the overall development of the collective.

Viewed from this angle, the "descent" of many SOURs to being work organizations (it is believed that this process will be intensified) can only be a step forward, and all the more successful to the extent that it is preceded by experience.

[Insert]

#### Association in Three Points

The Law on Associated Labor, article 382:

A composite organization of associated labor (below: a composite organization) is organized:

- 1) by the association of work organizations that are mutually linked by the production of raw materials, the supply of energy, semifinished products, or parts for the manufacture of finished products, and trade in goods in services;
- 2) by the association of work organizations that work and produce basically the same type of products, or that perform the same types of services, provided that their association ensures the introduction of a more developed technological-technical basis for work in the associated organization and a division of labor that will make it possible for them to specialize and thus increase the productivity of social labor;
- 3) by the association of work organizations that produce different products or perform a different services, in order to achieve a common income and other definite common interests.

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CSO: 2800/258

YUGOSLAVIA

PROBLEMS OF UNEMPLOYMENT IN KOSOVO

Belgrade BORBA in Serbo-Croatian 2-3 Mar 85 p 2

[Article by Milos Antic: "Threat of Unemployment"]

[Text] Increasingly more serious analyses and assessments, both political and socioeconomic, indicate that the problem of unemployment is one of the burning issues in current Kosovo reality. In fact, the problem of unemployment has reached such an extent that it is threatening very directly to have an effect as well on the overall political situation, which in any case has not reached the desired degree of stability following the counterrevolutionary attacks by the Albanian nationalists and irredentists.

The records from self-managing interest communities [SIZs] for employment indicate that 110,000 people are seeking work through them. Of this number, let us state at once, 75 percent are people younger than 27, and as many have certain qualifications. Thus, there are few unskilled labor force. On the other hand, people familiar with the situation in Kosovo assert that there is at least an equal number of people who are waiting for work but are not applying to the SIZs, since they know that they cannot get work. If one adds to this the facts that about 50,000 people from this province are working outside our country, that 40,000 young people are regular students or otherwise at the university, and that about 100,000 girls and boys are sitting on secondary school benches who will soon be knocking on the gate of associated labor, then one can at least to some extent form a picture of this problem.

Some analyses at the national level indicate the following: according to all the development predictions, the Kosovo economy will not be able to employ the annual influx of about 25,000 people into the working population, not just this year and the following years--it will not even be able to achieve this in the year 2000. In fact, by that year the contingent of the working population will be increased by 50 percent, i.e. by about 500,000 people. With that figure, in that year Kosovo will reach a share of 47 percent instead of the present 22.5 percent in the total growth of the working population in Yugoslavia.

It is thus more than evident that this province will be faced with the problem of unemployment throughout the entire period until the end of the century. This will happen in spite of the fact that according to the estimates, each year between 15,000 and 20,000 people will obtain work. The economy of the province will not be able to employ a larger number of unemployed people, in

spite of the dynamic development that is planned. Actually, it must be acknowledged that the unemployed will continue to pay the bill for the incorrectly conducted development policy in the province over a long period of time, when all of the funds for development were invested in the heavy base economic structure, which was expensive, but did not employ people, and what is even worse, because of excessively slow and expensive construction, it created debts that will continue to swallow the funds for development and employment.

#### How to Solve the Problem

On the other hand, whether one wants to admit it or not, the high population growth, and as a result of this the large influx in the working population in this province in recent decades, as well as the population growth expected in the coming years, are fairly seriously neutralizing all of society's efforts to achieve more rapid economic development of this underdeveloped province and a solution to the problem of unemployment. The following data and comparisons will perhaps show this best.

For instance, from 1952 to 1976 investments in basic capital in Kosovo were increased by more than 19 times (9.4 times in Serbia and 7.7 times in Yugoslavia), but the increase in the social product per 100 dinars of economic investments in Kosovo was 14 dinars, compared to 24 for Yugoslavia. During this period the number of those employed in the province was increased by 4.7 times, compared to 3.3 times for Yugoslavia. In spite of all this the number of unemployed in the province grew continuously. In fact, it grew to the same extent as the growth in the number of inhabitants and of the working population. During the period from 1948 to 1982, the number of inhabitants in Kosovo increased by 2.3 times, while the province's share in the total population of Yugoslavia increased from 4.6 to 7.2 percent. Estimates indicate that in 2000, about 2.5 million people will be living in Kosovo, i.e. every tenth Yugoslav. Then the province will have gone from seventh place to fourth in the country in terms of the number on inhabitants.

It is thus obvious that the problem of unemployment in the province will become worse from year to year, and that it will require solutions that will not permit it to cross the boundary of criticality. All of the scientific, professional, political, and other factors in the province, and outside of it as well, will have to give an answer as early as this year, when the medium-term plan for the next 5 years is prepared, as well as the long-term one until 2000, to the following major and unavoidable question: how to keep the problem of unemployment within normal limits, and how to do what to have it gradually lessened and if possible, completely solved.

It is clear to everyone, even laymen, that only rapid socioeconomic development, along with large investments, can solve this problem. It is also clear to everyone, however, in spite of all the burdens and willingness of the entire community, that the kind of development that would employ such a labor force cannot be ensured, especially not during this economically difficult period.

## Addressing the High Brith Rate

Even this problem, however, is not so entangled that a thread cannot be found to unravel it. At this time it is extremely important that first of all the planners, and then the people who have made decisions on investments and who are doing it now, have realized that the most essential thing is not to erect and build installations that would cost several tens of millions more per employee, and that instead, in the present situation, it is necessary to turn toward the manufacturing industry, which absorbs a large number of workers. In the second place, it has finally been realized that not everything is in factory smokestacks, and that agriculture, through intensive development, can employ a large number of the people who are waiting for work. It is for this purpose that irrigation systems are being built in Kosovo, and that \$180 billion is being invested in the development of agriculture in the private sector in 12 undeveloped opstinas.

Naturally, serious discussions will also have to be conducted in the province on family planning and reducing the birth rate. For the time being this issue is being ignored, as if people did not want to address it. The roots of the large families in Kosovo, and the large number of children, lie in a long-standing tradition that most of the households will find it hard to give up. The right answer to this question should be provided by sociologists and other suitable specialists--and as soon as possible and in the correct manner, it seems.

And while this question is waiting for the correct scientific answer, and on the basis of this the necessary sociopolitical action, some concrete steps are being taken in the province to alleviate the problem of unemployment. In addition to the above-mentioned talks, talks and proceedings are also under way on announcing a national loan for employment. It is expected that this method can collect 5.2 billion dinars, which would provide jobs for 1,500 to 2,500 people. Next, the simplest calculation has shown that Kosovo's economy, through an increase in productivity by just 1 percent--and it is known that its productivity is between 20 and 30 percent lower than the national average--would create an income of 487 million dinars each year, and if these funds were invested in new jobs, 200 workers could be employed each year. Or there is another and even more secure source. If associated labor succeeded in reducing business expenses by just 1 percent, one and a half billion dinars would be saved each year, and this would be enough to provide work for about 700 workers. And while we will not list them, there are many reserves for alleviating this problem. They should just be utilized and brought into service.

We have not spoken on this occasion about the possibilities in this respect that are offered by the pooling of the Kosovo economy's work and funds with those of the country's associated labor. The number of self-managing agreements signed is approaching the figure of 100. In the coming years this figure will be considerably increased, and that work will be ensured for many people.

A particular subject is investment by the broader social community in the most rapid possible development of Kosovo. It is know that considerable funds will continue to be secured through the federation's Fund for the requirements of

the province's development. It ought to be stressed in highly visible letters in all documents that these funds are being allocated for development and for solving the problem of unemployment, and not to repay debts for those collectives which cost the province its development during the current medium-term period and the one before that. If it happend during the next medium-term period that the money from the Fund is used to pay for the giants in debt up to their ears that were built during this medium-term period, there will be no more rapid development and there will be no solution to the problem of unemployment in Kosovo.

And that could not and should not happen. If fact, the associated labor of the province should not permit this, since the problems of unemployment cannot be solved by the unemployed, but rather by the employed, and consequently, those to whom society has entrusted considerable social funds in order to increase them and open up prospects for the coming generations. In fact, the LC and all other subjective forces in society should not permit the funds for development to be used for other purposes, and thus to exacerbat<sup>4</sup> the problem of unemployment, since no one else can be responsible for every possible serious problem that unemployment could cause.

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YUGOSLAVIA

## GRBIC DEFENDS HIS BOOK IN SUPPORT OF PRIVATE SECTOR

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 9 Apr 85 pp 23-25

[Article by Maja Miles: "Maoism Among Us"]

[Text] Cedo Grbic (member of the Croatian Constitutional Court) has found, he says, "complete confirmation of the scientific soundness" of his book "Socijalizam i rad privatnim sredstvima" [Socialism and Self-Employment], which came out a year ago. More accurately, confirmation of the correctness of one of his basic theses: in our country there is a dogma with respect to the private sector (Dogma with a big D, as Grbic likes to write it, in order to specify this specific one), and it, frequently more powerful than constitutional and legal precepts and certain of our party and social commitments, has been restricting the private sector most directly. No one, according to Cedo Grbic, has confirmed this better than those who have put their hooks into his book these past months.

After a very tumultuous "round-table discussion," the one organized by the editorial board of BORBA, and which, according to Grbic, brought together mainly "well-known dogmatists as far as the private sector is concerned" (BORBA hadn't published a word about the book's contents in advance of that, although the editors "otherwise do publish excerpts from unpublished books when it finds that this is suitable for stimulating discussion ..."), and after the unusually numerous and vitriolic attacks on his views, one thing is clear to Cedo Grbic, he was right.

The dogmatic mind-set is dangerously holding back the private sector's development, and thereby is actually standing directly in the way of carrying out an important segment of the Long-Range Economic Stabilization Program. And all that is actually more true now than he thought at the beginning, when he was writing the book.... My critics are my best witnesses--that is approximately how we might sum up the response of Cedo Grbic to his attackers which was published a few days ago (running some 22 pages) in the most recent issue of the Zagreb journal for legal theory and practice NASA ZAKONITOST.

Grbic made response to some of the criticism which followed immediately upon publication of "Socijalizam i rad privatnim sredstvima" in an interview which he gave to DANAS in November of 1984, but here the criticism is broadened somewhat, and some of it is in fact more severe.

Just a reminder: What is Grbic actually asserting in a book which has raised such a furor?

Definite long-term patterns can be spotted in the development of what is referred to as our private sector, according to Grbic: a gentle quantitative growth of production as a whole; a considerable drop in the size of the labor force and thereby of employment as well, a rise of productivity--but the rise of productivity is relative to the very low base from which it started developing; rapid reduction of the private sector's share in total social production; the commonplace use of work in the private sector to gain a "second income"; the low level of affiliation, and so on. Over the 30-year period in which the social product of the socialized sector has grown eightfold, that of the private sector has increased only 2.9-fold, and over the same period (these are the years 1952-1982) the private sector's share in the gross social product dropped from 30.5 percent to 13.78 percent. So: there can be no question at all about any "strengthening of the private sector at the expense of the socialized sector"--still less can these figures, which are discouraging for "private operators," indicate any "strengthening of capitalistic elements," as our dogmatists interpret them, so Grbic judges. One of the basic patterns of our postwar development has been the disappearance of the peasantry as a class--a process which is in fact so obvious and which will continue and become more intense with our farm policy. "In my judgment we have not taken sufficient advantage of the productive capability and financial resources of individuals (...) which would have contributed to overall social development and to productivity of labor."

#### Name-Calling

But none of this came up yesterday. And none of these views on self-employment under socialism and specifically in our country being published for the first time in Grbic's book (although it does elaborate them and research them in more detail), nor have they come for the first time from the pen of Cedo Grbic and nowhere else. Back in 1968 he published a monograph entitled "Mjesto i uloga rada na privatnim sredstvima za proizvodnju i usluge" [The Place and Role of Self-Employment in Production and Services] with the identical ideas: no hue and cry was raised at all. In the meantime, however, the Long-Range Economic Stabilization Program has emerged, and within it a separate document on economic stabilization in small business--in which, Cedo Grbic reminds us today, identical views on the role of dogma in treatment of the private sector were formulated a year before his book came out. Why, then, didn't those who were criticizing him today come together around a round table and fill their pens back then and attack the Long-Range Program directly?! Paraphrasing Tito's famous sentence, Grbic observes resignedly: "The views in my book were obviously more convenient for playing the role of straw man."

In other words: we are actually dealing with an attack on the Long-Range Program. Camouflaged--but not really very well.

The causes?

One of the most important is the "pressure of the dogmatic ideology according to which small-scale production is every day giving rise to capitalism--which is a danger to socialism," Cedo Grbic observes in his lengthy answer to his attackers in NASA ZAKONITOST. This "Maoism," as Grbic refers to it today, is the principal common denominator in his response to his opponents. And their methods are recognizable: first, Grbic says, they take advantage of him and impute to him some imagined assertions ("nonsense such as I never said or wrote")--from his having supposedly proclaimed the private sector the only salvation for this society all the way to his having attempted to graft certain aspects of, say, the Japanese model onto our specific features. Then they called him names, of which the least offensive is that he is a naive liberal romantic, all the way to calling him "the conductor of an ideological current which is against the essence of socialism," a current that is malicious, tendentious, anarcholiberal, and indeed even Djilasist, that he is a "renegade from our party"--so that as a consequence he ought to "bear political responsibility" for his views (and if this does not occur--then that is a sign of opportunism and ignorance). But these critics, when all is said and done, have actually performed a very constructive role. "They have completely confirmed the scientific soundness of the statements about the role of the Dogma (...), they have even gone further, and some of them have been negating the role of the private sector as a whole under socialism, whereby they have come close to the ideology of the cultural revolution in China, which utterly did away with the private sector." They formulated the dogmatic ideology more clearly and openly than ever before.

However, while the Chinese are radically abandoning the Maoist errors, in our country ultraleft dogma is setting itself up without an excuse-me on the road of the Long-Range Program, the constitution and law: this domestic "Maoism," according to Grbic, is being openly expressed by assertions such as the one that "privatization in a socialist society negates the essence of socialism and the essence of associated labor" (L. Gerskovic), or that a "private economy negates the very essence of socialism" (S. Carkovic). Yet aren't these recognizable and well-known resonances? For example: "So long as those strata base their life as a whole on private ownership, socialism in many respects remains only a goal." This quotation did not come from here at home, but from KOMMUNIST in Moscow in 1982 (Grbic in fact quotes it in his book), from a debate with the Italian communists. "One of the most complicated tasks (in the transitional period) ... when the fundamental question is being settled of whether socialism will finally prevail over capitalism or whether capitalism, relying on certain internal forces and aid from abroad, will manage to take revenge (...) is the task of socialist reshaping of small-scale production," writes KOMMUNIST of Moscow, and Grbic finds here very striking similarities with articles which have appeared in recent months in BORBA and certain other of our newspapers as a reaction to his views concerning the private sector (alongside, we should not forget, a whole series of very favorable reviews which welcomed Grbic's book).

#### Principles or Oxen

In this showdown of dogmatism with "privatization," with the "private sector," with "capitalistic tendencies" dogmatism is about as much interested in

reality as it is in last year's snow. If reality does not fit into the principles, too bad for reality. So the discussion of the private sector actually and necessarily becomes a discussion of ideology--and that a dogmatic ideology--rather than of the facts. One simply cannot fail to recall Rousseau, who said it very openly: "Let us do away with all the facts, since they have nothing to do with the subject." If reality does not fit into the model which has been conceived, one should not be too much troubled by it: if real developments, Grbic says, are different from the dogmatic model, then they are simply proclaimed antisocialist or at least the result of the activity of antisocialist forces. Grbic: "In the heat of discussion against the private sector the author of the piece 'Ideologija privatnog vlasnistva' [The Ideology of Private Ownership] (G. Moravcek--M. M.) asked why organizations of associated labor could in future not set up stores in remote settlements or cabinetmakers' shops. What does it have to do with him that the socialized sector has already abandoned that. Another dogmatist asserts that all the private little cafes and restaurants, tailors' shops and boutiques, dry-cleaning establishments and laundries, print shops and copying shops could do business in the socialized sector (...) and only then, on the basis of social ownership, would they be administered and given a business conception from one place (so that) they could perform their function (S. Carkovic--M. M.). The fact that it proved impossible to operate profitably with low-grade restaurants, especially when they were managed from one center, does not concern this dogmatist at all."

Blind to reality, but quick to pin on labels (especially that "antisocialist" one), the dogmatists refuse to acknowledge that today the main inequality and antisocialist phenomenon in our society is the high level of unemployment, Grbic says. "For them it is better to have unemployment than for jobs to be created in the shops of private craftsmen. When our workers took jobs abroad, hired by real capitalists, that did not bother them." It does not bother them that in the private sector--and according to Cedo Grbic this can be laid personally at the door of the dogmatists--not nearly as many workers were hired as our laws, which today are rather restricted, would have allowed. "They regard even those laws which make it possible to hire the labor power of others as antisocialist pieces of legislation." They harshly attack the "buying of a job" although this is allowed by the Law on Associated Labor; they are fiercely opposed to broadening the maximum size of the farmland holding, since this would result in the hiring of the labor of others--and it means nothing to them that modern technology and equipment make it possible today to cultivate much larger areas than the allowed 10 hectares without anyone's help; out of love for principles they would prefer to keep on the oxen and horses as the principal "machines" in cultivating the land rather than advance agriculture; they (L. Gerskovic, for example) consider the earning of what is referred to as the "second income," that is, work aside from regular employment, to be criminal and "a most dangerous initial element of the restoration of capitalism"--and they don't care, Grbic says, that millions of workers have to earn a second income in this way precisely because they simply cannot survive solely on the basis of the low income which they earn or can earn in their regular job....

All of that is a frightened bureaucratic state of mind, which sees the bogeyman of capitalism (read: a threat to their ruling position, to the "dictatorship of the bureaucracy," as Grbic refers to it)--at every step. The bugbear of capitalism is threatening through the market and money-exchange relations and is hidden and lying in wait behind the laws of economics. In this connection Grbic calls the name of one theorist (L. Gerskovic) who asserts that present-day socialist relations "are prevailing, as in fact emphasized in our constitution, the commodity relations of the market." However, that is not written in our constitution, Cedo Grbic says. The constitution speaks only about the need to overcome the uncontrolled operation of the market, which is not at all the same thing as "prevailing over the commodity relations of the market." The constitution takes as its point of departure that the results of labor are confirmed on the market in the context of socialist commodity production.

### Expensive Dogma

Capitalism is also threatening on other fronts ("dogmatism in general constantly and absolutely underestimates the strength of socialism and overestimates the strength of capitalism," Grbic observes, not without a certain surprise). In the form of income from capital, for example, so that the favorite topic of "custodians" of socialism is the demand that no income dare be realized through the use of capital, but income must be realized exclusively from "personal live labor." It is under the impact of these and similar views, asserts the author of "Socijalizam i rad privatnim sredstvima," that all those administrative restrictions were put in place pertaining to store space, tourist facilities, some kinds of machines, vending machines, the purchase and leasing of farmland--solutions which so far have already been very expensive for us. One way of realizing "income without work" which has been legalized in our country is interest on savings deposits--and even then only on foreign exchange balances, since the interest on dinar balances even now only covers inflation (barely if at all). However, there are now those who say that interest ought to be taxed: supposedly following the pattern of certain other economies, but they forget that this is possible only when the value of the principal is not reduced by the saving. But in any case we might introduce such a measure only if we were certain that this would not result in withdrawal of savings account balances, which are urgently necessary to us now, that is, under the conditions of a stable economy (but today that is something far away for us).

But here again: Who cares about facts and--real needs?

The dogmatists, as Grbic insists on calling them, see a powerful penetration of the capital relationship in the Yugobillionaires. It is not difficult to compute what a Yugoslav billionaire "weighs" today--the point seems hardly worth dealing with--and how much of a danger our "rich people" are to socialism, even if there were more than a million of them (the highest estimate). It is interesting, however, that in that "class" of billionaires the attackers of the private sector cram almost all the private operators (since they are willing to tolerate only poor peasants and poor private entrepreneurs, i.e., those categories of the self-employed which are rapidly dropping away, Grbic

says). They do not include among the billionaires being criticized, however, the owners of weekend cottages, although it is clear that today every decent weekend cottage at the shore is by itself worth at least half a billion--nor do they mention here holders of the right of tenancy, who actually dispose of socialized housing units worth billions (and which also, incidentally, have market value as well), and under the conditions of noneconomic rents, that is actually being given to them and is opening up the occasion for consumption at a "higher standard of living"--which is precisely the principal characteristic of the "billionaire" way of life....

If Grbic's estimates are right, then there is no question that the dogmatic attitude toward the private sector is an expensive luxury which we dare not allow ourselves in the situation we are now in. But there is more to it than that: in the background of the conflict over the private sector there is actually, according to Grbic, a conflict between two approaches to socialism: "According to the leftwing dogmatic approach, it is possible to arrive quickly at communism by introducing equality in distribution regardless of the level of development of production. The fact that that road has been shown and proven to be impossible in all attempts made to date, since it is not possible to arrive at communism on the basis of poverty, does not diminish the strength, influence and attractiveness of that ideology. According to the other way, communism can be achieved only when high productivity of labor and an abundance of products are achieved. All the lines of high labor productivity need to be encouraged, not prevented, even if in so doing we have to rely on certain capitalistic patterns, provided, of course, that those patterns do not become prevalent. Prohibiting the private sector and imposing exaggerated restrictions on it do not contribute to the approach of communism, but slow it down," Cedo Grbic says.

And he proves his point with two urgent problems--unemployment and the farmland that is not being cultivated.

Although unemployment is today the most serious of all the problems burdening our society, we continue to dogmatically shrink from at least partially freeing ourselves through more expensive and larger hiring in the private sector--supposedly out of a fear of the penetration of wage relations. We do not even have, Grbic says, any sort of program on how to develop full employment of the peasants on their farms--we are more predisposed to mixed farm households (presumably because they are "more socialist"), although they are incomparably less productive than the rich and true peasant farms, so that supposedly they would not produce the capital relationship. We raised a hue and cry over the "buying" of jobs--although the law allows this, although this affords broader employment, although it expands the socialized plant and equipment--since it questions the equality of the right to work (although that is also made possible by the Law on Associated Labor). "Insisting here on equal rights to work is not so much ideology as stupidity," Grbic says to his opponents.

#### Serious Assessments

But the greatest loss of national income which we have indulged in because of the dogmatic treatment of the private sector is occurring, according to Cedo

Grbic, because of the failure to cultivate farmland, which is a direct consequence of our farm policy. Under the impact of our dogmatic ideology not only is the use of this greatest of our national resources not being stimulated--but administrative and all possible other obstacles are being systematically set up in its way. This can be seen in the prohibition against agrobusiness, in the ban on leasing beyond the maximum farmland holding, in the maximum farmland holding itself, which is intolerably low, in the irrational policy concerning the inheritance of land (by no means do we decide, as so many other countries have done, that the one who will stay on the land has the right to inherit it), in the ban on the use of forestland for raising livestock, in the various forms of prevention and discouragement of the pooling of private land so as to use it better and more efficiently.

And what have we gained? Mixed households have become commonplace, farm holdings have been fragmented, the peasantry has aged, the bare hill and mountain regions have been abandoned, and--there is more and more abandoned, uncultivated land. The worst solution for any system is for the land not to be cultivated when there is a food shortage, Grbic resolutely asserts, but if you mention that to our dogmatists, they will tell you that you are raising a demagogic furor; even in the USSR a policy is conducted whereby everyone, including even physicians or engineers, produce food, and government support is also provided for that, while in our country the hue and cry against those who engage in agrobusiness is more important.

If you propose doing away with the maximum farmland holding or increasing it, the gentlest name you will be called, Grbic says, is that you are a neoliberal. The strongest argument they will use in replying to you, however, is that this would result in an "altogether different society" than ours, what we would get would be nothing more nor less than feudal lords who would unsparingly exploit the labor power of others on immense latifundias. That is to forget the true state of affairs (again the facts, which don't interest anyone): if we say that land is very expensive in our country and that traditionally people have been reluctant to sell it (even households in which there are no young people are reluctant to let their land go--they prefer to lease it), so that accordingly the offering of land is extremely limited, the prices are higher and higher--and it is difficult to even imagine the existence of the capital with which those dangerous farm holdings, awkward from a capitalist standpoint, would be shaped, when one day the maximum farmland holding is finally abolished....

Grbic sees in the "Dogma" the line which we rejected in 1948, and he asserts that it--as it is today being publicized on a large scale by the opponents of the private sector and with especial ferocity precisely in the attacks on his book--directly against the constitutional arrangement and those of legislation and the Law on Associated Labor, and in particular--the direct attack on the Long-Range Program.... Those are certainly serious judgments: that is the way Grbic responds to his opponents in NASA ZAKONITOST, harshly, to put it mildly, and with no apologies. We have to expect that that will be a new impetus for discussion--which unfortunately, whether we like it or not, nevertheless does bear the title "Private Sector--Yes or No" (and perhaps, if Grbic is right, the alternative title "The Long-Range Program--Yes or No")--to be continued, probably indeed in a similar fierce tone. The first reactions, we have heard, have already begun to arrive in the editorial office of the journal: both those which are in favor and those which are against Grbic and the private sector.

YUGOSLAVIA

STATUS OF ELECTRONICS INDUSTRY IN CROATIA

Zagreb DANAS in Serbo-Croatian 16 Apr 85 pp 24-25

[Article by Ratko Boskovic]

[Text] According to customs declarations, Croatia's power machine and electrical appliance industry (as defined by the Uniform Nomenclature of Business Activities--Branch 0117) exported goods worth about 17 billion dinars in 1984. A year earlier it exported about 22 billion dinars worth of goods. There was a drop, then, of 22 percent, but within that number we find a 12-percent drop in exports to convertible markets and a 31-percent drop of exports to bilateral payments markets.

These figures are alarming, there can be no doubt of that. In addition to the conventional industrial groups, industrial branch 0117 also includes a segment of the economy that is a technological vanguard and is supposed to begin to gradually bring Yugoslavia closer to the highly advanced world, and that without any delay whatsoever. Given the miniature size of our own market, it is certain that that approach can take place only through an exchange of high-technology products and an exchange of knowledge and establishment of joint business undertakings.

When we say "without delay" we are not stating any sort of new target by way of a policy program, but we are referring to the specific and very discouraging figures to the effect that the present growth trend of electronic production in Yugoslavia is still headed toward a steady lag behind the world. With its present per capita output of about \$50, Yugoslavia is where Japan, Germany or Great Britain, to take examples, were at the end of the fifties, and the United States at the end of the forties. That is why in the middle of last year the Study on the Electronics Industry of SR [Socialist Republic] Croatia was done in Zagreb as one of the main lines of development; that is why the task was set in the Croatian Assembly to develop the electronics industry at a faster rate of about 16 percent, whereby toward the end of the century we would come even, say, with Italy, and the lag behind the United States would be reduced to 15 years.

On the curves reflecting these trends the year 1984 is plotted as the turning point, as the moment from which the growth trend of the Yugoslav electronics industry would begin to climb steeply. The statistics, however, relentlessly turn that curve downward.

What is more, the work organizations whose activity is such that they must be expected to bring in "first-quality" foreign exchange (that is, convertible currencies and at high prices) are actually a medium through which dollars are flowing out: TRS [Computing Machines Factory] in Zagreb, for example, is spending three times as much convertible foreign exchange as it is earning. Nikola Tesla, if we ignore for the moment the results that factory has achieved in its business with bilateral payments countries, is actually spending 1.5-fold more dollars (1.5 billion dinars in 1984) than it has been earning (0.95 billion dinars). SOUR RIZ [Zagreb Radio Industry Complex Organization of Associated Labor], according to customs figures, is earning only slightly more (950 million dinars) convertible foreign exchange than it is spending (812 million dinars), while its visible exports to convertible markets have dropped to less than half in 1 year (index number: 42).

### Traps

Certainly the statistical data on financial results contain many methodological traps which we will try to discover. Yet it is not only the quantity of exports that is disturbing. Even a superficial examination of the pattern of exports of the Croatian electronics industry to convertible markets has shown an increase in exports of products which in this most modern industry are on the lowest rung of the ladder of technological development. For instance RIZ is exporting black-and-white television sets, TRS is exporting mechanical calculating machines, and Nikola Tesla has been delivering to its licensing partner spare parts for earlier generations of telephone switchboards which the partner itself has ceased to produce.

After learning of these figures in conversations with the top management of Zagreb electronics enterprises (with the firm exception of RIZ), we were especially surprised by the attitudes displayed from which one can conclude that these managers did not in fact feel that the question of the exports of their products to the most advanced countries of the world is a question of the survival of their work organizations or a dramatically decisive step in Yugoslavia's overall technological development. Instead of hearing about the development of new products for export to the West and visions of convertible exports, the reporter mainly heard lists of difficulties which those exports involve, strings of arguments in support of the "social utility" of conventional import substitution, defense of arguments to the effect that exchange of the most modern electronics products for raw materials on a barter basis is just as worthwhile as pure exports to convertible markets, all of this spiced with threatening and discrete warnings and outright holding back of figures or statements declared to be off the record. Is this merely a sign of the business realism of the managing directors of electronics enterprises? A sign of the struggle for income?

It is quite possible that the answer is in the affirmative. Yet it is also quite easy to show that a high level of income might be quite a bit out of proportion to society's goals in technological development, since the way it is being realized in a closed cycle is standing in the way of exports to convertible markets. TRS, for example, uses about \$200 worth of imports to produce a printer selling in the world for about \$1,000. Where does it get those

\$200 if it has no exports of its own? It gets them through what is called pooling or by making purchases on the foreign exchange market. Comrade Zuzic, the commercial director, is extremely reluctant to talk about exactly how. For example, it involves transactions which are not exactly part of the enterprise's principal line of business, "but which everyone does," such as collecting, processing and exporting scrap, all of which is done in order to import the necessary components, but now at a price of the dollar which at the end of the cycle makes TRS's end product too expensive for the world market. Thus TRS, when it begins the new cycle of development, does not even have the money to visit professional fairs in the world, much less for technical development. Here there would seem to be unconquerable technological obstacles. For every product which the reporter referred to as of interest from the standpoint of exports, TRS's engineers recounted special technological processes, materials or devices which Yugoslavia does not have, so that TRS's product for export cannot be competitive either in price or performance. Director Zuzic frankly said that he had no answer to the question as to the way out of that closed cycle.

#### Coverage

Nikola Tesla also has a high level of gross income. At the end of 1984 the figure was 30 percent greater than in 1983. Yet Tesla also saw a halving of its exports in 1984 (a drop of 53 percent), and an underfulfillment of the plan of all of 65 percent. "It follows from the pattern of exports that that drop was caused by smaller exports to the bilateral payments market," we read in Tesla's factory newspaper. "That is, exports to the convertible market (\$4.9 million) doubled over last year. The reasons for the decline in exports to the bilateral payments market lie in the (American) embargo on exports of present-day technology to the CEMA countries. Completion of those transactions has been postponed, and some of the contracts have been amended in agreement with our trading partners. That is, we have agreed on delivery of crossbar systems, which will be completed in 1985...."

It seems that Nikola Tesla's dominant orientation toward bilateral payments markets is taking its toll. Director Marijan Crnjak contends that exports to the bilateral payments countries continues to be an "extremely worthwhile export," since it provides Yugoslavia raw materials which are convertible. If Tesla had not agreed to do business with the Eastern countries, "we would have shown that we are not business people," Comrade Crnjak emphasizes, "and we would have been extremely unintelligent if we had not also tended toward exports to the countries of the West." That tendency is today bringing Tesla significant results which in the rather gloomy picture of the Croatian electronics industry is the rare bright point that stands out. Nikola Tesla, according to the figures of the Republic Self-Managing Community of Interest for Foreign Economic Relations, is the work organization which best to cover its convertible imports with exports.

Three years ago, in 1982, exports amounted to only 9 percent of imports. Then the factory made the transition to new digital equipment and without references within the country there could not have been any larger exports. Yet by 1983 the factory had exports to cover 58 percent of its needs for foreign

exchange, and last year the level of coverage reached 65 percent. What about the remaining 35 percent, or the one-third of the foreign exchange which Tesla still lacks?

Nikola Tesla's managing director says: "When we also take into account the right to dispose of foreign exchange on the basis of exports to the bilateral payments area, the factory is entirely meeting its own needs for foreign currency. In the middle of the next 5-year period Nikola Tesla's convertible foreign exchange package ought to be completely rounded out, since the attempts to penetrate convertible markets have borne fruit in countries such as China, Poland, Cuba, Syria (in the last three with crossbar telephone switchboard which in technological terms are older) and Sweden (purchases from Ericsson are offset by counterdeliveries). Will it now turn out that Tesla could have been earning more green dollars even before, even though Comrade Crnjak vigorously rejects the suggestion that the apparent security of exports to the Soviet Union lulled Tesla to sleep.

Perhaps it was not lulled to sleep, but certainly it did not strain itself either in making changes in the product mix which would have been of interest to the Western countries, at least not so long as the factory was able to obtain the remaining foreign exchange it needed through various commercial arrangements which the reporter is required to be silent about, certainly because those arrangements would not enhance the factory's reputation.

Yet the point is not to set up in the production complex of some individual high-technology factory, nor indeed even within the entire industrial branch, a production operation that would largely or even completely cover the entire cycle of reproduction whereby it earns foreign exchange. Even according to the social rules of the game whereby basic needs to import for government and social service purposes require that every exporter export at least twice as much as he needs for basic reproduction (since by law about half of the convertible foreign exchange is left to him), and by world criteria for expanded reproduction that is sufficiently rapid (at least rapid enough not to fall further behind world growth trends, if not to catch up with them), for an electronics industry using imported components and equipment, it makes no sense at all in terms of long-range development to have any other type of production than one which is completely oriented toward convertible exports. There is no need to even mention that in that case there would be more than enough foreign exchange to produce or to purchase a sufficient quantity of almost all the products needed on the Yugoslav market.

Does the room exist for that kind of exporting?

#### Our Place

"In 1984 world output of electronics products reached a value of \$440 billion, at an annual growth rate of 16.5 percent. This created the largest market for industrial products in history. In 1985 the production of electronics products

will increase by another \$75 billion or so, and that annual growth will increase even more in coming years," says Vlatko Zagar, chairman of the RIZ business board. "What is our place here, what is RIZ's place?"

"Let us assume," Comrade Zagar went on, "that our purpose is to take a share of the newly created market in an electronics industry that by world standards is relatively underdeveloped. Not, that is, a share of those \$440 billion which have already been taken by the large companies and countries which are dominant on the world market, but a new \$70 billion a year which have yet to be created. Let us assume that we would like to have a 1-percent share of that segment. That would amount to \$750 million. Is that realistic?"

There are signs that it is, but not strong ones. One such sign is RIZ's Transmitter Factory, which is making Yugoslavia a great power in the world (one of three) in the reduction of high-power radio transmitters, with a per worker output at this moment of about \$50,000 per year. This is a figure close to those of all the largest European electronics manufacturers (except for the European affiliate of IBM, where the annual per worker figure is about \$150,000). If RIZ had 5,000 workers (it now has 4,100) with the productivity of the Transmitter Factory, its gross income alone would amount to \$250 million annually, or a third of the sum imagined as the goal for all of Yugoslavia.

Yet the state of affairs is far from this kind of imagining. In 1984 RIZ posted exports worth \$49 million, only \$12 million of which were in the form of visible exports which have been paid for. Collection of \$27 million for exports has been "rescheduled," and \$10 million have gone into capital investment projects abroad. According to customs declarations, only \$7.7 million of the products of SOUR RIZ left Yugoslavia in 1984. In per worker terms: less than \$2,000.

But in spite of that it is difficult to agree with the opinion of Comrade Lovro Galic, head of the development department of the Computer Factory, to the effect that it is best for us to continue exporting timber.

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**DATE FILMED**

**25 JUNE 85**

